2003 Annual Report

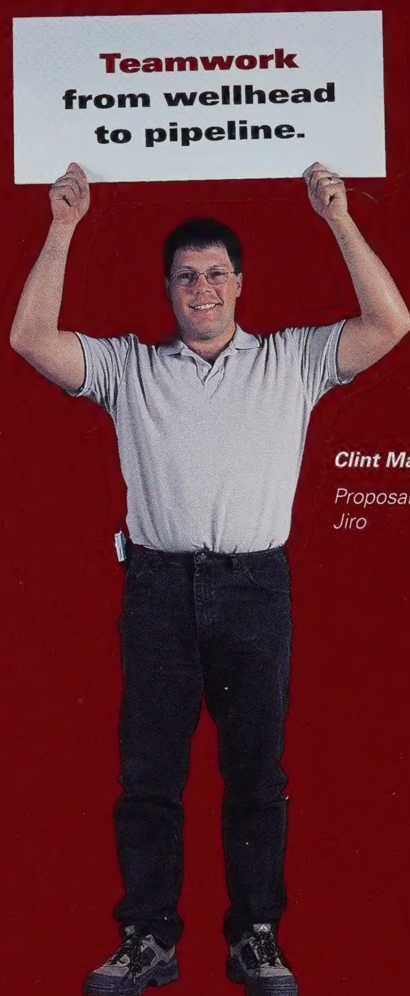
14 Divisions.

1900 people.

ENERFLEX

Teamwork from

wellhead to pipeline.



Clint Marshall

Proposal Technician
Jiro

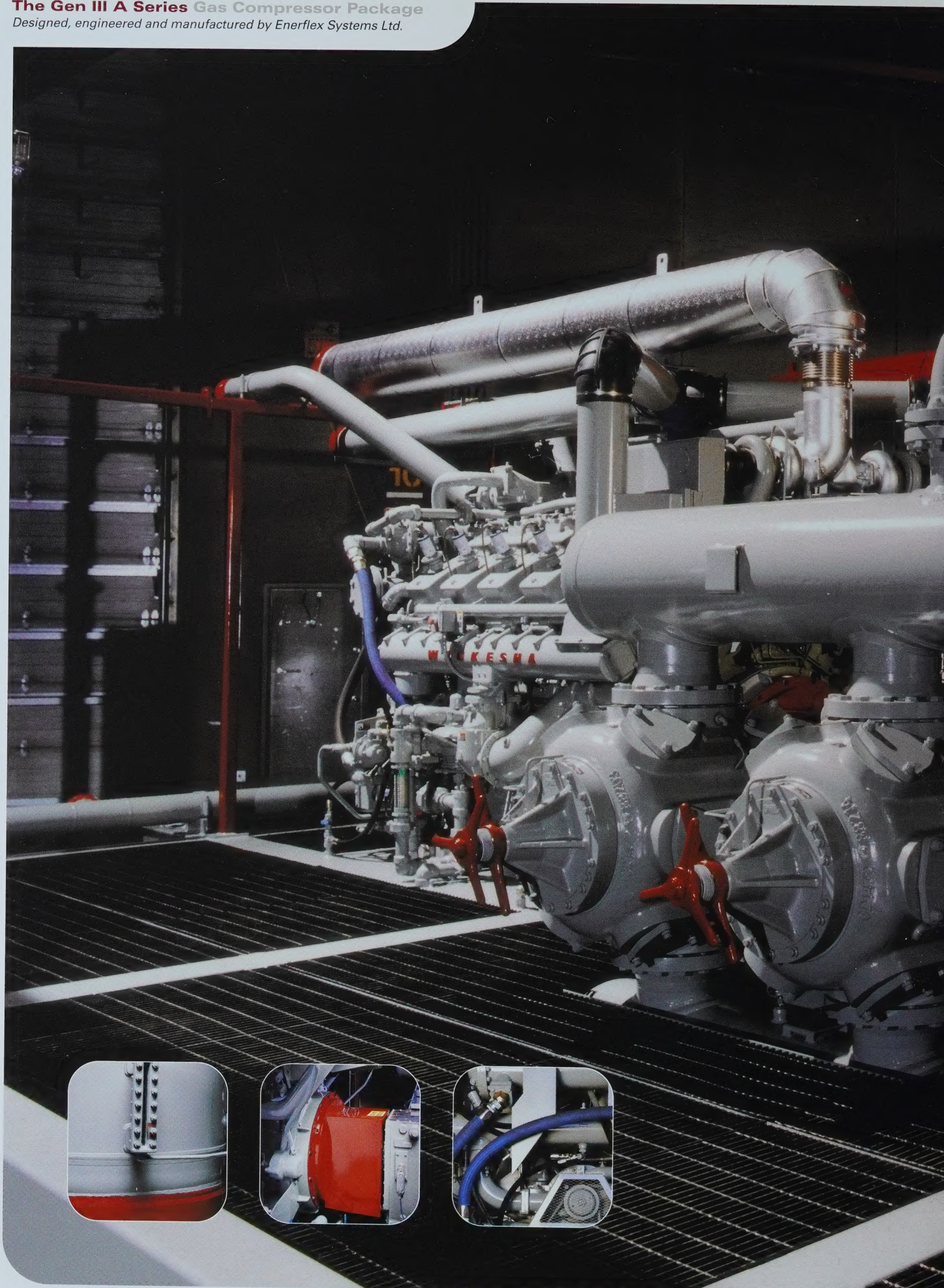
Enerflex Systems Ltd. is a leading supplier of products and services to the global oil and gas production industry. With the talent, commitment and passion of over 1,900 Enerflex people, we offer expertise and teamwork from wellhead to pipeline.

Enerflex provides natural gas compression, power generation and process equipment for either sale or lease, hydrocarbon production and processing facilities, electrical, instrumentation and controls services and a comprehensive package of field maintenance and contracting capabilities.

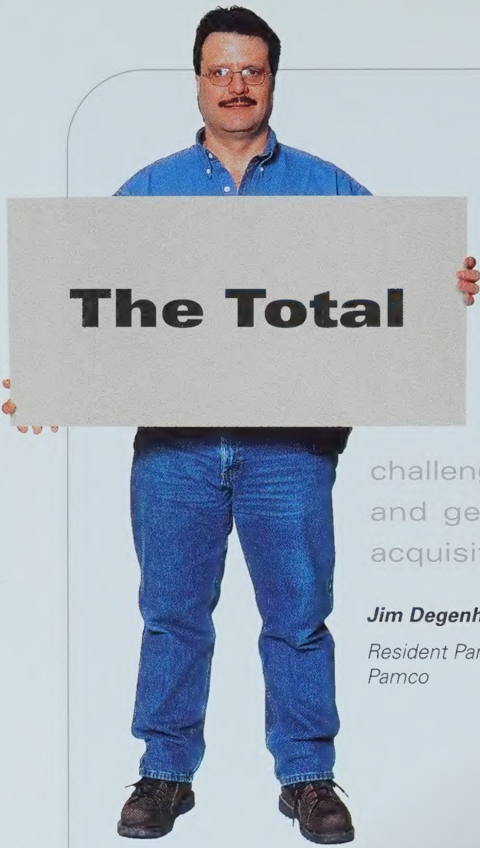
Through our ability to provide these products and services in an integrated manner, or as stand-alone offerings, Enerflex offers its customers a unique value proposition — the total Enerflex solution.

The Gen III A Series Gas Compressor Package

Designed, engineered and manufactured by Enerflex Systems Ltd.



The Total Enerflex Solution



Today's oil and gas producers are looking for complete solutions, with best-in-class products and services. Enerflex meets these challenges. Over the years, Enerflex has grown by both product segment and geography, adding new businesses through organic growth and acquisition.

Jim Degenhardt

Resident Partsman
Pamco

Compression

The Compression operating unit is a world-class packager of natural gas compression equipment, engineering and fabricating a complete line of reciprocating and screw compression packages throughout the 5 to 6,000 horsepower range.

Electrical, Instrumentation & Controls

This operating unit provides a comprehensive range of electrical, instrumentation and control technologies products and services to the petrochemical, energy, forestry, pulp and paper, mining, and agriculture industries worldwide.

Production & Processing

This operating unit builds turnkey, integrated oil and gas production and processing facilities to meet the needs of the crude oil and natural gas industry around the world. This includes engineering, transportation and field services, production equipment rentals and flare systems.

Leasing

The Leasing operating unit offers customers flexible and innovative financing through which companies can acquire the use of a broad range of gas compression, power generation and process equipment. Leasing options include short-term rentals, long-term capital and operating leases and full-service contract operations.

Mechanical Service

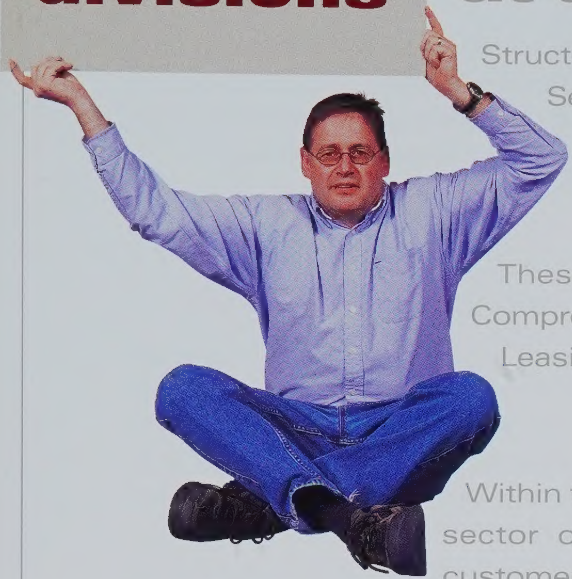
The divisions of the Mechanical Service operating unit provide field maintenance services, equipment and parts to the oil and gas industry. With over 350 highly trained personnel, the Enerflex Mechanical Service unit operates in Canada, the United States, the United Kingdom, the Netherlands, Germany, Australia, and Indonesia.

Power

The Power operating unit designs and fabricates power generation systems as stand-alone equipment packages or on a turnkey, installed basis. Their expertise includes co-generation facilities, turbine, diesel and gas reciprocating units.

CUSTOMER

divisions at a glance



Charlie Burgeson

Vessel Pipe Supervisor
EFX Compression

Structurally, Enerflex is organized into three business segments: Service, Fabrication and Leasing. Together they allow Enerflex to provide a complete suite of services.

These services are delivered through six operating units: Compression, Power, Mechanical Service, Production & Processing, Leasing, and Electrical, Instrumentation & Controls.

Within these units are the divisions, each a leading specialist in their sector of the industry. Their expertise and experience provide customers with stand-alone solutions to their needs or can be brought to bear in concert with each other to create powerfully integrated teamwork – a total Enerflex solution, anywhere in the world.

Compression

EFX Compression

At the heart of Enerflex is our EFX Compression division headquartered in Calgary, Alberta. With more than 20 years of packaging experience, EFX Compression has become a global market leader in the custom engineering, fabrication and installation of modular compression facilities for the natural gas industry. The pioneer of the standardized modular compressor package concept that revolutionized the industry, EFX Compression's leadership continues with the development of the new Gen III A Series compressor package and the cost-efficient BTB (Back-To-Basics) line-up of standardized compressor packages.

Jiro

From its 82,000 sq. ft. (7,625 sq. m.) facility in Stettler, Alberta, Jiro is Canada's leading provider of premium portable screw gas compression solutions for applications under 400 horsepower. With its comprehensive line-up of standardized package modules, Jiro provides flexible, high performance and economical packages designed to be fit-for-purpose with accessories pre-selected for simplicity and reliability.

Compression Services

Previously known as Re-engineered Solutions, Compression Services is the dominant specialist in the reapplication, refurbishing and modification of natural gas compressor packages, creating substantial savings for the energy industry while maximizing the life of existing equipment. Compression Services even offers its Phoenix Series line-up of standardized, reconditioned compression packages, further expanding the available choice of compression solutions.

EFX Compression USA

Located in Odessa, Texas, EFX Compression USA custom fabricates gas compressor packages for a variety of applications including acid gas, fuel gas boosters, gas chillers/refrigeration, gas gathering, landfill gas, R-22 refrigeration, re-injection, vapor recovery, and wellhead applications.

Power

Power

Enerflex Power provides custom and standardized sub 10-megawatt reciprocating and turbine power generation packages worldwide. Enerflex's power solutions bring the highest standards of design, production and innovation to every project, whether in the form of a turnkey-solution, a custom-built package or a cost-effective standard package.

Mechanical Service

Pamco

Pamco is the Canadian energy industry's largest parts and service resource, the leader in field maintenance, overhaul, parts and service of gas compression and power generation packages. Pamco maintains a $19 million parts inventory supported by manufacturer warranties from the industry's best suppliers. Pamco is the only authorized Waukesha Engine distributor for Canada. Combined with its extensive network of branch locations and the most factory-certified service technicians in the business, Pamco's reputation for reliability, technical knowledge and first-class service is unparalleled.

Jiro Service

Jiro, the leading provider of portable gas compression solutions, also provides the leading field maintenance, parts and overhaul service for small horsepower portable screw compressor packages in western Canada. With over 45 service technicians and 25 fully equipped vehicles, Jiro Service is available to customers 24/7, for repair, preventive maintenance and package optimization, allowing production downtime to be minimized.

Landré Ruhaak

Located in Vianen, the Netherlands, Landré Ruhaak is the pre-eminent supplier to the European energy industry of field maintenance and overhaul service, equipment and parts for compression and power generation and complete co-generation packages. Landré Ruhaak is the only authorized Waukesha Engine distributor for the Netherlands, Portugal and Spain.

Gas Drive Systems

Gas Drive Systems provides after sales support and service for gas compression, power generation and co-generation equipment to Australia, the South Pacific and Southeast Asia. To cover these areas effectively, branches are located in Sydney and Perth, allowing Gas Drive Systems to deliver their expertise where and when it's needed. Gas Drive Systems is the only authorized Waukesha Engine distributor for Australia, Papua New Guinea and Indonesia.

PT Gas Drive Systems Indonesia

PT Gas Drive Systems Indonesia brings the integrated offerings of Enerflex to Indonesia. This includes large and small application compression solutions, production and processing design and commissioning, and equipment, parts and service for compression and power generation packages. PT Gas Drive Systems Indonesia is the only authorized Waukesha Engine distributor in its region.

Today's oil and gas producers are looking for complete solutions, with best-in-class products and services. Enerflex meets these challenges.

Production & Processing

Presson

With over 24 years of experience, Presson is a global leader in the design and manufacture of oil and natural gas production and processing equipment. Located in Edmonton, Alberta, Presson is an integrated engineering, design and fabrication company. Presson offers a full range of products and services – from providing a single component of an oil and natural gas operation, to creating a comprehensive service package that includes design through to commissioning and operator training.

Mactronic

Based in Red Deer, Mactronic is the industry leader in engineered flare systems. Mactronic invented and patented the "Mac Ignitor" flare ignition technology system in the early 1980s. Today, Mactronic continues to lead the world in flare ignition technology and in the manufacturing of flare stacks, flare burners, flare knock-out drums, and combustion systems.

Leasing

Leasing

Enerflex Leasing offers financial options and solutions including short-term rentals, long-term capital and operating leases and full-service contract options. Enerflex Leasing helps customers free up their capital to focus on other business issues, earning them a greater return and giving them maximum flexibility. Enerflex Leasing makes it easier to have the right equipment for the right job at the right time.

Electrical, Instrumentation & Controls

Syntech

Syntech is the largest electrical and instrumentation open shop contractor in western Canada. Syntech provides a comprehensive range of electrical, instrumentation and control technologies products and services to the petrochemical, energy, forestry, pulp and paper, mining and agriculture industries worldwide. Syntech not only follows standards, but sets them when it comes to experience, quality workmanship and customer service. Syntech is the industry leader bringing systems to life.

Enerflex at a glance

Jacqui Blunsum

Receptionist
Gas Drive Systems

($ millions, except per share data and ratios)	**2003**	2002	2001
RESULTS			
Revenue	**515.5**	326.7	375.0
EBITDA[1]	**51.2**	30.0	47.8
Income before income taxes	**31.2**	14.3	36.5
Net income	**20.4**	9.2	22.5
Per common share – basic	**0.92**	0.51	1.51
Cash from operations before changes in non-cash working capital	**34.9**	22.7	30.0
Capital expenditures, net			
Rental equipment	**3.7**	8.5	10.0
Property, plant and equipment	**2.8**	2.2	2.5
Dividends per common share	**0.40**	0.40	0.40
FINANCIAL POSITION			
Working capital	**82.8**	68.7	62.1
Total assets	**457.7**	451.2	222.1
Long-term debt	**68.4**	69.0	30.0
Shareholders' equity	**274.5**	260.9	118.5
KEY RATIOS			
Gross margin as a percentage of revenue	**20.2**	21.4	19.5
Pre-tax income as a percentage of revenue	**6.1**	4.4	9.7
Return on average equity[2] *(%)*	**7.6**	4.9	20.2

(1) Earnings before interest, taxes, depreciation and amortization (EBITDA) is a non-GAAP (Generally Accepted Accounting Principles) earnings measure that does not have a standardized meaning prescribed by GAAP and therefore is unlikely to be comparable to similar measures presented by other issuers.

(2) Return on average equity is calculated as net income divided by the simple average of shareholders' equity at the beginning and end of the year.

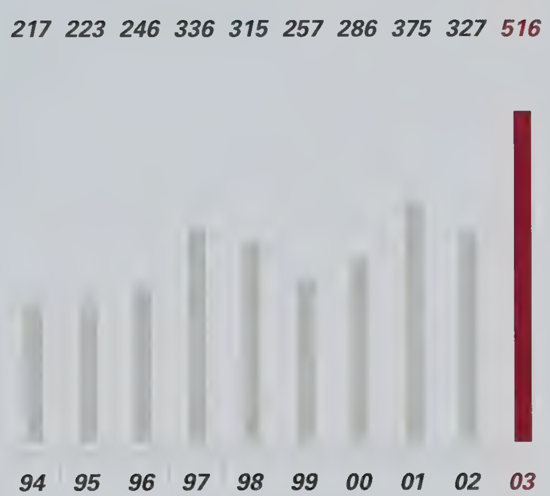
This document contains forward-looking statements, which are subject to certain risks, uncertainties and assumptions. Should one or more of these factors materialize, or should assumptions prove incorrect, actual results may vary significantly from those expected.

highlights

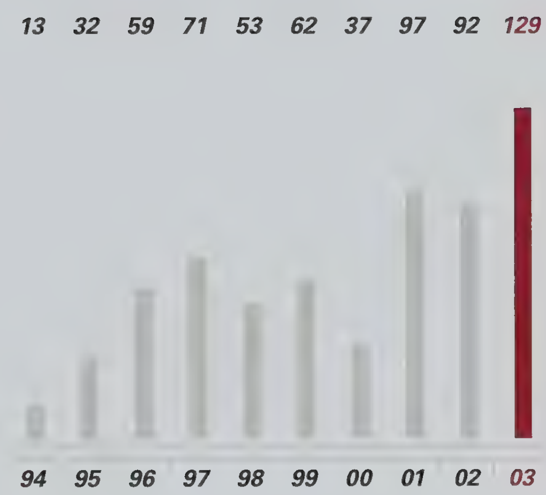
Michiel Sap

Service Engineer
Landré Ruhaak

$ millions



$ millions



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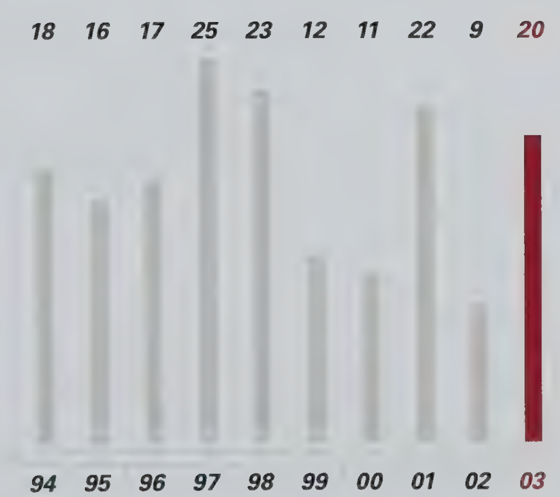
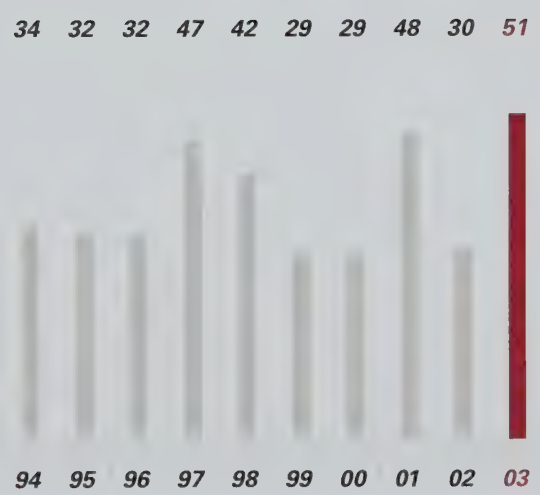


$ millions



P. John Aldred *Chairman, President and CEO*
J. Blair Goertzen *Executive Vice-President and COO*

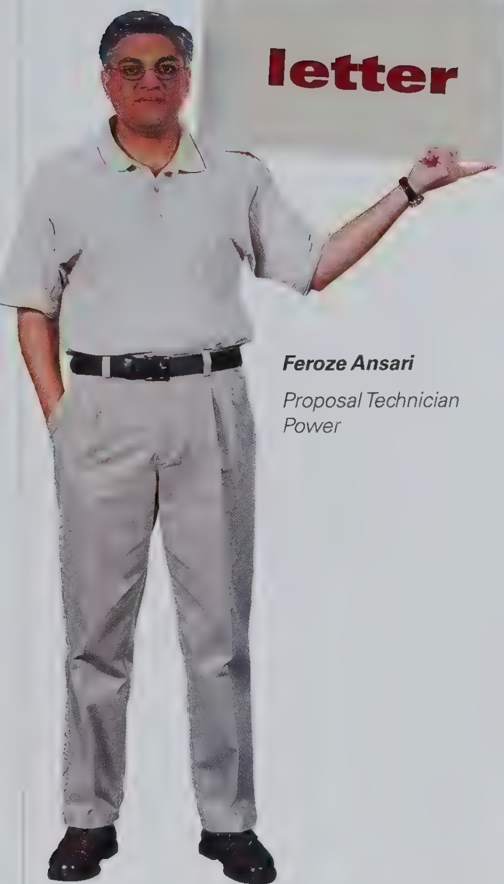
Flexible

Talented people

Skilled people

Motivated people

letter to shareholders



Feroze Ansari

Proposal Technician
Power

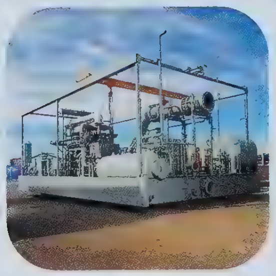
Enerflex has been profitable in every year since it became publicly traded in 1993.

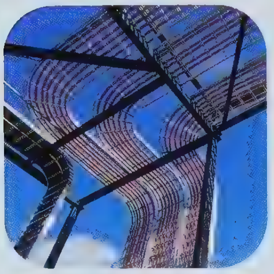
Our results for 2003 were a substantial improvement over a challenging 2002 for our industry and for Enerflex. A complete discussion of our financial results is contained in the Management's Discussion and Analysis of this Annual Report. Highlights for 2003, which includes a full year of operations from the former EnSource businesses, acquired on July 18, 2002, include a:

- 121% increase in net income to $20.4 million ($0.91 per diluted share) compared with $9.2 million ($0.51 per diluted share) in 2002.
- 58% increase in revenue to $515.5 million compared with $326.7 million in the prior year.
- $19.9 million reduction of short and long-term bank debt, net of cash, from $109.2 million at the end of 2002 to $89.3 million on December 31, 2003. Following the EnSource acquisition, the Company's debt peaked at over $130 million.

We are proud of our achievements over the course of the past year, but recognize that there remain significant opportunities to improve in the future. The people of Enerflex are confident that our restructuring in 2003 will deliver strong results in 2004 and beyond.

Enerflex is not just about numbers – it's about the people who strive to satisfy our customers every minute of every day in every country that we serve. Our 2003 Annual Report is dedicated to our employees. Their commitment to customer service creates value for our shareholders, which is reflected in our results.





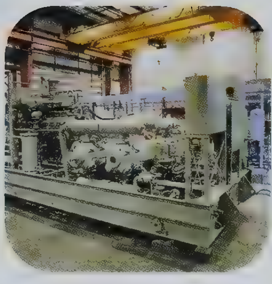
Enerflex has been profitable in every year since it became publicly traded in 1993. Financial markets, and the markets for the products and services that Enerflex provides, have had good years and lean years, but your Company has been consistently profitable. Throughout the past decade, through commodity price cycles, oil and gas industry consolidation, technological advancements, and changes to the competitive landscape, our people have enabled Enerflex to adapt to new environments.

In response to changes in our markets, Enerflex completed the strategic acquisition of EnSource Energy Services Inc. in July of 2002. This business combination more than doubled our staff complement, and we now have over 1,900 employees in Canada, the United States, the United Kingdom, the Netherlands, Germany, Australia, and Indonesia.

An acquisition of this magnitude creates not only opportunities, but challenges, as a new culture and corporate identity evolve. To address changing circumstances, your Board of Directors acted decisively in 2003 to strengthen management. I returned to Enerflex as President and Chief Executive Officer to use my experience as founder to enhance the Company's relationships with employees, customers, suppliers and shareholders and, in so doing, strengthen shareholder value. I remain in my role as Chairman and a significant shareholder of our Company.

In August, Blair Goertzen joined Enerflex as Executive Vice-President and Chief Operating Officer. Blair brings 15 years of executive level experience in the energy services sector and is playing a critical role in creating a lean, practical corporate structure, with accountable leadership and empowered employees.

I returned to Enerflex as President and CEO to use my experience as founder to enhance the Company's relationships with employees, customers, suppliers and shareholders.

Enerflex is not just about numbers – it's about the people who strive to satisfy our customers every minute of every day in every country that we serve.

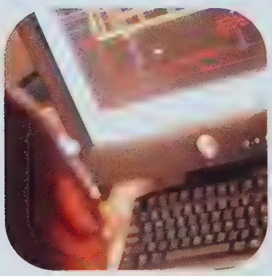
In 2003, your Company renewed its focus on people. There have been a number of important leadership additions to Enerflex during the past year, including:

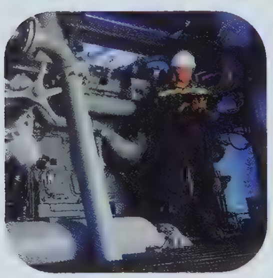
- Rachel Moore as Manager, Human Resources. Rachel's mandate includes standardizing best practices in human resource management across our businesses and implementing compensation policies that encourage and reward excellence.
- Tom Gamble as Vice-President of our U.S. subsidiary. Based in Houston, Tom is responsible for our compression sales, fabrication and service businesses in the United States. Tom brings a strong understanding of U.S. markets and has 30 years of worldwide compression packaging experience.
- Jagi Singh as Vice-President, Sales for EFX Compression. Jagi helped build our Company's reputation for customer service from its inception into the 1990s and has returned to Enerflex following a number of years with a competitor.
- Bill Moore, who built our Australian subsidiary Gas Drive Systems into the market leader, has accepted a promotion to Vice-President, Mechanical Service, with responsibility for mechanical service throughout the world. Bill and his family have relocated to Calgary, Canada.
- Yves Tremblay as Vice-President, Syntech. Yves was Vice-President, Enerflex Power, and previously managed the service work of a large electrical utility in Alberta.
- Earl Connors as Vice-President and General Manager, EFX Compression. Earl previously worked with Enerflex in the mid-1990s, when he assembled a talented engineering team and helped build our reputation as the pre-eminent compressor package manufacturer.

These key leaders have helped bring a renewed vitality to Enerflex. But they are just part of the reason that we are most optimistic about the future prospects for your Company. All of our employees, who share this optimism, are working to build the Company's success. Throughout this Annual Report you will see a few of the many people who take pride in strengthening our business.

> All of our brands are being revitalized, as shown throughout this Annual Report. We have assembled the individual strengths of our businesses into one strong Enerflex team.

Business processes and structures are not particularly interesting topics, but if they are not sound, even good people struggle to perform to their fullest capabilities. Important changes have been made to our business structure to enhance performance:





- Each of our businesses now has its own vice-president or general manager. In 2003, responsibility for our Service business segment was split to sharpen our focus on customers, suppliers and employees. Our Syntech electrical, instrumentation and controls business and our Mechanical Service business now operate under their own leadership. Each of these two businesses generates annual sales well in excess of $120 million and has unique characteristics that require focused, specific attention.
- Over the past 20 years, our businesses have earned strong reputations for quality and service under various brand names. Not only are the distinct brand names well known and respected by customers, but our employees take great pride in their business unit's first class reputations. All of our brands – Syntech, Pamco, Gas Drive Systems, Landré Ruhaak, Presson, Mactronic, EFX Compression, Compression Services, Jiro, Jiro Service, Power, and Leasing – are being revitalized, as shown throughout this Annual Report. We have assembled the individual strengths of our businesses into one strong Enerflex team.
- A key philosophy at Enerflex is that each of our businesses should have responsibility for pre-tax earnings and have control over the factors that drive earnings. As part of our restructuring, certain functions that had been directed from the corporate office, such as marketing, have been distributed to operating units to increase their control and to reinforce the concept that each business unit is accountable for its own performance.

Enerflex operates in a very competitive business environment. To be successful, the Company must deliver quality products and services while remaining price competitive. We are committed to streamlining processes in the office, on the shop floor and in the field to continuously improve efficiency while enhancing financial and operational controls. We are also committed to developing improved products, like EFX Compression's Gen III compressor package and Syntech's proprietary control technology, which provide benefits to our customers and create competitive advantages for your Company.

Management and our employees would like to thank our Board of Directors and shareholders for the direction and encouragement that have been offered over the past year. Your support for our initiatives to strengthen the Company's foundation and build for the future is gratefully appreciated.

Yours sincerely,

P. John Aldred
Chairman, President
and Chief Executive Officer

February 2, 2004

The right people in the right places.
Enerflex is one of the pre-eminent employers of western Canada's large pool of skilled tradespeople.

Enerflex Systems Ltd. is a leading provider of products and services to the global oil and gas production industry. The Company is headquartered in Calgary, Canada, with operations in Canada, the United States, the United Kingdom, the Netherlands, Germany, Australia, and Indonesia.

review of operations

Cecil Wood

QA/QC, HSE Supervisor
EFX Compression USA

Enerflex is organized into three business segments: Service, Fabrication and Leasing. Together, they allow Enerflex to provide a complete suite of products and services from wellhead to pipeline.

These products and services are delivered through six operating units, each focused on meeting a specific area of customer need: Compression, Power, Mechanical Service, Production & Processing, Leasing, and Electrical, Instrumentation & Controls.

The six operating units are comprised of 14 divisions, each of which offers unique expertise and knowledge to customers either on a stand-alone basis, or as a powerfully integrated team solution.

Management Realignment Brings Re-energized Entrepreneurial Spirit and Customer Focus

As 2003 began, Enerflex concentrated on integrating the operations of its 2002 acquisition of EnSource Energy Services Inc. The assets, products and services, customers and people gained from EnSource were key to the vision of a Company that can offer complete, turnkey natural gas and oil equipment and services anywhere in the world. As the year progressed, the integration of these operations and the re-alignment of the management structure was reflected in improved performance.

A series of key changes in management approach over the course of the year sent well-received signals to customers about the Company's re-energized entrepreneurial spirit. This began in May 2003 with the return of John Aldred, Enerflex's founder, as President and Chief Executive Officer and primary steward of the Company. The returning CEO emphasized a back-to-basics,



customer-focused philosophy in all areas of the Company. He further set about re-aligning the leadership to reflect a focus on "the right people in the right places." This included the August appointment of industry veteran Blair Goertzen as Executive Vice-President and Chief Operating Officer and changes to senior management within the operating units.

In the latter half of the year, the rebuilding process began to show results. Bookings in the EFX Compression facility in Calgary doubled from the second to the third quarter. This was a key indicator of success, as optimal utilization of this world-class fabrication facility is critical to Company profitability.

Another important reflection of the renewed entrepreneurial approach was a move to capitalize upon the legacy strengths and brand names of the fourteen divisions of Enerflex. Recognizing the unique marketing strengths and reputation of each division within its market and among its customers is creating an increased sense of accountability within the divisions. It is also encouraging cross-divisional teamwork and one-stop solutions for customers.

In October, the Company restructured its Service business segment, with Syntech and Mechanical Service becoming independent units. Senior managers were appointed for each. This move recognized the need to properly focus upon the unique strategic and operational needs of each of these businesses.

The vision of a global wellhead-to-pipeline Company was realized successfully in 2003, with several major cross-divisional projects. One such project was a compression-dehydration facility for Centurion Petroleum Corporation in Egypt that included products and services from Presson, EFX Compression, Syntech, Power, Mactronic, and Pamco.

Enerflex also supplied a liquefied petroleum gas (LPG) plant to PT Wahana Insannugraha in Indonesia. PT Wahana Insannugraha is the builder-operator-owner at Cemera gas plant for Pertamina, Indonesia's state-owned oil and gas company. Presson engineered, designed, manufactured, and commissioned a complete natural gas process facility for the extraction of LPG and condensate. Syntech provided electrical and instrumentation hardware for the plant. Four gas compressor packages were designed and fabricated by EFX Compression and Pamco assisted with start-up and commissioning.

Operating Structure

Enerflex has six operating units. The following section reviews 2003 operations for each and provides outlooks for 2004.

COMPRESSION

The Compression operating unit is a world-class packager of natural gas compression equipment, engineering and fabricating a complete line of reciprocating and screw compression packages throughout the five to 6,000 horsepower range. In addition, we operate the only stand-alone compressor refurbishing facility in the industry.

2003 Operational Highlights

- Compression completed and shipped 230 compressor packages in 2003, almost double the number shipped in 2002.
- EFX Compression introduced the innovative Gen III A Series compressor package, featuring state-of-the-art vibration and force dampening features. 36 units were sold by year end.
- Management restructuring and the return of key leaders, including Earl Connors as Vice-President and General Manager and Jagi Singh as Vice-President, Sales, to EFX Compression sent strong signals to the marketplace regarding technical excellence and customer service.
- Bookings in the EFX Compression facility (in Calgary) doubled from the second to the third quarter.
- EFX Compression received an order for two of the largest modular (skid-mounted) compressor packages ever to be built in North America.
- Compression Services (formerly Re-engineered Solutions), an operation which focuses on refurbishment of compressor packages, was renamed in the fall to restore its brand recognition.
- Jiro's revenue for 2003 exceeded expectations, and included entry into international markets, with the shipment of a compressor package to Pakistan.
- EFX Compression USA appointed new, experienced leadership, and expanded its market reach, winning two major South American projects in the face of entrenched local competition, and delivering eight compressor packages, fabricated in the Calgary facility, for a Mexican hydrocarbon production facility.

The strengthening of demand for Compression's products and services experienced in the latter half of 2003 is expected to continue throughout 2004

2004 Outlook

The strengthening demand for Compression's products and services experienced in the latter half of 2003 is expected to continue throughout 2004. Perhaps more than other divisions, EFX Compression and Compression Services are seeing results from the re-alignment of management and the return of an entrepreneurial spirit to the Company's activities. Throughout all divisions, 2004 will see a focus upon employee retention and recruitment.

Facility utilization remains the key driver for Compression, with signs being positive from both domestic and international markets.

EFX Compression will re-introduce its BTB "Back-to-Basics" line of standardized products. Combined with continuing success with the Gen III A Series, EFX Compression is regaining its industry dominance.

Compression Services is implementing a gas plant and compressor optimization program for customers, as well as for the Enerflex lease fleet, that will enhance production, gain efficiencies and reduce operating costs. Compression Services will be reintroducing the Phoenix line of completely refurbished compressor packages carrying full warranty.

The Jiro division will expand its line of standardized screw compressor packages in an effort to consolidate its sub-400 horsepower customer base in the Western Canadian Sedimentary Basin and to further penetrate foreign markets.

EFX Compression USA will be looking to significantly increase its bookings in 2004. Key markets for sales activities include specialty and high specification compressor packages in the United States and Latin America. Latin America will yield improved results with the appointment of a dedicated sales representative and key agency agreements signed with customers in the region.

POWER

The Power operating unit designs and fabricates power generation systems as stand-alone equipment packages or on a turnkey, installed basis. Our expertise includes co-generation facilities, turbine, Diesel, and gas reciprocating units.

2003 Operational Highlights

- Enerflex Power completed and shipped 18 power generation packages in 2003.
- An exclusive alliance was formed with Dunlop Standard Energy for turbine power plant and co-generation solutions.
- We were selected to provide a 3.3 megawatt turbine for ATCO Electric in Jasper, Alberta.
- An 800 kilowatt flare gas-fuelled generator package was installed in central Alberta.
- Power was awarded a $2.2 million project involving four generator packages for Tanzania.

2004 Outlook

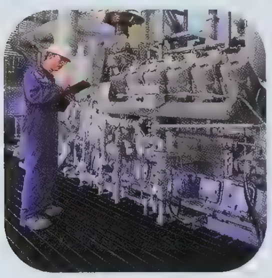
As 2004 begins, Power is implementing reduction in costs to address competitive margin issues in the reciprocating unit market. With customers' capital spending anticipated to maintain a steady pace from the last half of 2003, revenues are expected to be similar in 2004. Presson's joint venture operation in Pakistan will provide an impetus for increased penetration in that market.

MECHANICAL SERVICE

Mechanical Service provides field maintenance services, equipment and parts to the oil and gas industry. With over 350 highly trained personnel, Mechanical Service operates in Canada as Pamco and Jiro Service, in the United States as EFX Compression USA, in the Netherlands and Germany as Landré Ruhaak, in Australia as Gas Drive Systems, and in Indonesia at PT Gas Drive Systems Indonesia.

2003 Operational Highlights

- Mechanical Service completed 42,829 service assignments, compared to 41,985 in 2002.
- Margins were maintained despite reduced demand for parts and preventative maintenance.
- Mechanical Service became a distinct operating unit with the appointment of a Vice-President with worldwide responsibility.
- Pamco renewed its Waukesha Engine Dresser Inc. distributorship in Canada.
- Our international market reach was extended through the establishment of PT Gas Drive Systems Indonesia and the opening of a new facility in Jakarta.
- PT Gas Drive Systems Indonesia benefited from the total Enerflex solution approach, assisting with start-up and commissioning of the PT Wahana Insannugraha gas plant at Cemera, Indonesia.
- Landré Ruhaak gained recognition as full-service provider for co-generation packages through a contract for the management and maintenance of 285 packages in the Netherlands.



- Jiro Service 2003 revenue increased 25% over 2002, with screw compressor refurbishment work emerging as an important new source of revenue.
- Mechanical Service gained a foothold in the United States, with five mechanics and trucks operating out of Odessa, Texas, supporting equipment in the Texas - New Mexico region.

2004 Outlook

Market conditions are expected to improve. It is anticipated that international markets, particularly in the Asian Pacific region, will be stronger than those in North America. Trends toward reduced maintenance spending, increased competition, and challenges to Waukesha's market dominance are expected to continue.

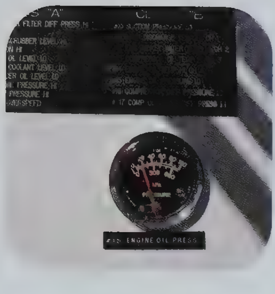
For 2004, the Mechanical Service unit will seek to enhance revenue and margins by building upon and diversifying supplier relationships to secure competitive distribution and pricing advantages and to secure new product opportunities. Dedicated sales teams will be focused upon key customers and the unit will look to expand its international business.

Accountability at the division and branch levels of the unit will increase with individual revenue, cost and operational goals for the year. To combat competitive encroachment, and in keeping with the overall Enerflex philosophy of the "the right people in the right places," a renewed focus on employee retention and recruitment will be a priority for managers.

An aggressive Pamco pricing structure is being introduced to our customers in 2004 to help mitigate reduced customer spending in the North American market and to retain and grow market share.

Landré Ruhaak will look to capitalize upon its success with full service co-generation maintenance to expand the number of units under its care in 2004. The division has plans to expand its reach through Europe, and to further leverage cross-divisional expertise to gain new contracts.

Though facing increased competition in its market, Jiro Service anticipates continued growth in overhaul and refurbishment work, as demand for low horsepower screw compression grows.



Gas Drive Systems will continue to expand its Australian operations in 2004 to better serve its growing customer base, while focusing on the development of its Indonesian operations. Opportunities for new products that add value to our existing offerings will be key in 2004.

PRODUCTION & PROCESSING

This operating unit builds integrated oil and gas production and processing facilities to meet the needs of the crude oil and natural gas industry around the world. This includes engineering, transportation and field services and flare systems.

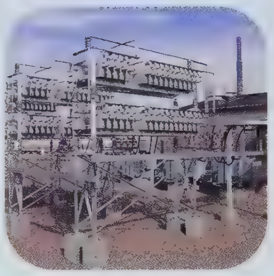
2003 Operational Highlights

- Presson maintained its strong brand name for excellence in Canada, where sales were stronger than expected.
- Our progress in international markets continued with outstanding results in Pakistan and Indonesia. Through Presson Descon International Ltd., Presson completed a 12 million standard cubic feet per day sour gas processing plant in Pakistan.
- Presson established a presence in the Indonesian market with its first LPG (propane/butane mix) plant in that country.
- Mactronic supplied its first major flare systems to the United Arab Emirates and China, and gained significant contracts in Mexico and Oman.
- At year's end, Presson promoted a talented senior manager to the position of general manager, to improve operational focus.

2004 Outlook

Production & Processing growth opportunities on the international scene continue with Presson's excellent prospects in Pakistan, its development of a growth plan for Indonesia and continued global diversification. Mactronic is well positioned for more contracts in Mexico and the Middle East.

The coming year will require a focus on people and expertise to support both domestic and international growth. There will be significant programs targeted at attracting talent, staff development and training, and employee retention.

Growth in the lease fleet is expected to be the largest investment opportunity for the Company in 2004.

LEASING

The Enerflex Leasing operating unit offers customers flexible and innovative financing through which companies can acquire the use of a broad range of gas compression, power generation and process equipment. Leasing options include short-term rentals, long-term capital and operating leases and full-service contract operations.

2003 Operational Highlights

- Leasing's performance exceeded plan, with a year-to-year revenue increase of 39%.
- 71 units were added to its fleet, closing the year with approximately 300 compressor and power generation units, totalling 78,000 horsepower.
- 55 compression units were sold from its fleet.
- Inroads were made into the United States with a 24-month rental arrangement of two compressor units to a major Texas producer.
- Rental fleet maintenance and operations were centralized with Jiro Service in Stettler, Alberta to improve operational efficiency and customer service.

2004 Outlook

Enerflex Leasing expects continued growth in demand for its products in Canada, and plans expansion into the United States in markets where lease rates allow for reasonable margin. Growth in the lease fleet is expected to be the largest investment opportunity for the Company in 2004. Key customer strategies include maintaining equipment in superior ready-to-run condition and developing standardized contracts.

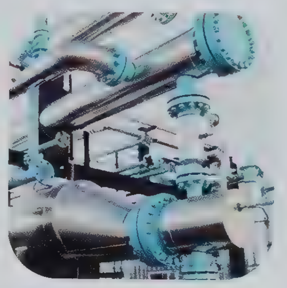
ELECTRICAL, INSTRUMENTATION & CONTROLS

Syntech provides a comprehensive range of electrical, instrumentation and control technologies, products and services to the petrochemical, energy, forestry, pulp and paper, mining, and agriculture industries, with over 650 staff throughout western Canada.

2003 Operational Highlights

- Syntech completed 71,810 service assignments in 2003 and maintained its position as the largest open-shop electrical, instrumentation and controls contractor in the Western Canadian Sedimentary Basin.
- Syntech became a distinct operating unit with the appointment of a Vice-President with worldwide responsibility.

- Syntech's Northwest region in northern Alberta and British Columbia delivered strong performance, with the completion of two large projects for Duke Energy and Blackrock Ventures. Syntech also had solid performance in its Central Alberta and Southern Alberta and Saskatchewan regions.
- Syntech was a key player in the PT Wahana Insannugraha gas plant at Cemera, Indonesia and a compression-dehydration facility for Centurion Petroleum Corporation in Egypt.
- An Original Equipment Manufacturer agreement was signed with Altronic, Inc. to assemble and market Altronic and Exacta-based controls in Canada.
- Our cost structure was reduced through the elimination of unprofitable product lines, selling our interest in a United Arab Emirates joint venture, closing of our United States branch and relocating several Canadian branches.



2004 Outlook

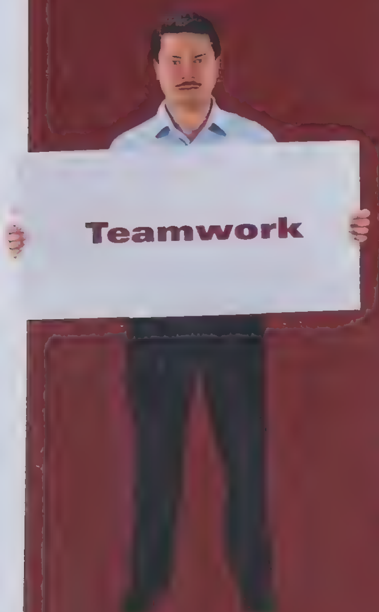
For 2004, Syntech anticipates commodity prices and drilling activity will remain close to 2003 levels, resulting in moderate growth in customer spending. This will result in modest revenue growth. The unit will therefore focus on enhancing its competitiveness and significantly increasing operating margins by reducing costs. Initiatives include working with suppliers to reduce material purchasing costs, better management of inventory and vehicle fleet optimization. Syntech also plans to reduce location costs and increase cross-selling opportunities by co-locating its head office in Enerflex's Calgary head office building in mid-2004. In addition, Syntech will enhance its industry leadership with the introduction of new and innovative digitally integrated control panel systems and other automation solutions.

Partnering with the best.

Through its various divisions, Enerflex is the authorized distributor of Waukesha engines and parts in many regions of the world.

Today's oil and gas producers are looking for complete solutions, with best-in-class products and services. Enerflex meets this challenge.

Through our ability to provide a full suite of products and services in an integrated manner, Enerflex offers customers a unique value proposition — the total Enerflex solution, anywhere in the world.



Teamwork from wellhead to pipeline.

In 2003, Centurion Petroleum Corporation entered into a contract with Enerflex to provide a gas processing plant for the South El Manzala Development in Egypt. This project is an example of how the divisions of Enerflex work together to meet customer needs.

Rennyarto Chandra
Sales Director
PT Gas Drive Systems Indonesia

Centurion Petroleum Project

Centurion Petroleum Corporation, Egypt

Designed and quarterbacked by the Presson division, the Centurion Petroleum project in Egypt's Nile delta region just south of the Mediterranean Sea, brought together the services of Enerflex divisions Presson, EFX Compression, Syntech and Pamco, to build a gas processing plant in two phases over a period of just 22 months. The plant was designed to manifold 40 million standard cubic feet per day of natural gas, at approximately 1200 psig (pounds per square inch gauge) from the wells to separation units. Compression, dehydration and [illegible] metering were also required before sending the gas offsite to the pipeline.

ENERFLEX

Teamwork from wellhead to pipeline.

ENERFLEX

Teamwork from wellhead to pipeline.

Worldwide Applications

Alaska

Algeria

Angola

Argentina

Australia

Azerbaijan

Bahrain

Bangaladesh

Barbados

Belgium

Brunei

Bolivia

Brazil

Cameroon

Canada

Chile

China

Colombia

Congo

Croatia

Denmark

Ecuador

Egypt

France

Gabon

Germany

Greece

Guatemala

Hungary

India

Indonesia

Italy

Kazakhstan

Kenya

Kuwait

Malaysia

Mexico

Netherlands

New Zealand

Nigeria

Norway

Oman

Pakistan

Papua New Guinea

Peru

Poland

Qatar

Russia

Saudi Arabia

Senegal

Slovakia

Spain

South Korea

Sudan

Switzerland

Syria

Taiwan

Tanzania

Thailand

Trinidad & Tobago

Tunisia

Turkmenistan

Ukraine

United Arab Emirates

United Kingdom

United States

Venezuela

Vietnam

Yemen

By working together, the Enerflex group of companies is able to offer our clients completely integrated solutions to fit their oil and gas production needs.

Compression-Dehydration Facility

- Presson was responsible for coordinating the design of the site plot plan, pipe racks and interconnecting piping and equipment foundation design.
- In the first phase, Presson designed and supervised installation of all of the necessary equipment for treatment of the gas to meet sales requirements.
- Presson fabricated and supplied all process vessels, piping and valves.
- All components for the plant were built as individual packages that could be connected when delivered to the plant site.
- The compressor package was designed by EFX Compression in Calgary. It consists of an Ariel model JGK/4 reciprocating compressor driven by a Waukesha L7042GSI turbocharged, 12 cylinder natural gas-fueled engine, delivering 1,478 horsepower. The components are mounted on a single-piece steel skid and controlled by a model RC2000 control system. The skid-mounted control system was designed and supplied by our Syntech division.
- The Syntech division supplied a fully furnished, multi-room modular trailer housing a motor control center, automatic power transfer switch, uninterruptible power supply (UPS) system, programmable logic controller (PLC) system, and two computer workstations for human-machine interface.
- A high pressure vent stack with integral knockout drum utilizing a water seal and manual CO_2 snuffing system was fabricated by the Mactronic division at its facility in Red Deer, Alberta.

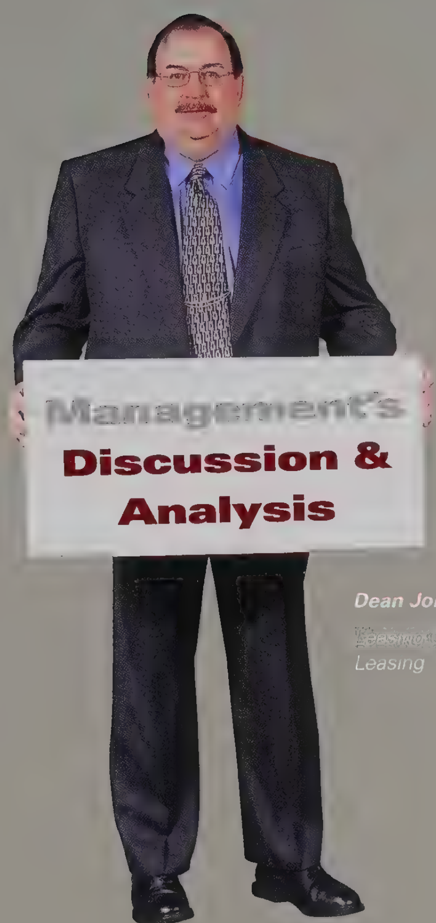
From wellhead to pipeline, our customers' production is our passion.

It is the talent, commitment and passion of the over 1,900 Enerflex employees worldwide who make it possible for Enerflex to bring a total solution to projects like the Centurion Petroleum gas processing plant in Egypt.

Our hats off to the Enerflex employees who make our customers' projects successful.

They truly create teamwork from wellhead to pipeline.

ENERFLEX



Dean Jones

Leasing Coordinator – Process Equipment Leasing

The crude oil and natural gas service sector in Canada, where Enerflex's operations are currently concentrated, generally recorded sequentially stronger results in each quarter of 2003

management's discussion and analysis

Enerflex Systems Ltd. is a leading supplier of products and services to the global oil and gas production industry. Our core expertise lies between the wellhead and the pipeline. Enerflex provides natural gas compression, power generation, and process equipment for either sale or lease, hydrocarbon production and processing facilities, electrical, instrumentation and control services, and a comprehensive package of field maintenance and contracting capabilities. Through our ability to provide these products and services in an integrated manner, or as stand-alone offerings, Enerflex offers its customers a unique value proposition.

Headquartered in Calgary, Canada, the Company has approximately 1,900 employees and operations in Canada, the United States, the United Kingdom, the Netherlands, Germany, Australia, and Indonesia. The Company's common shares trade on the Toronto Stock Exchange under the symbol "EFX".

results of operations

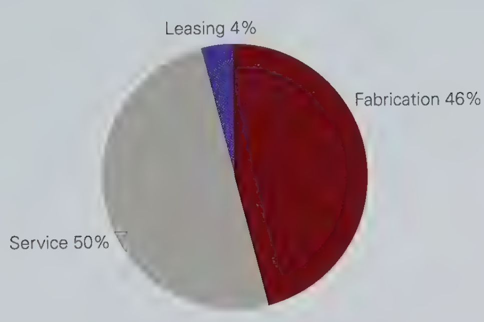
The following discussion and analysis highlights key business results and statistics for 2003 and 2002 and should be read in conjunction with the audited consolidated financial statements and accompanying notes on pages 53 to 68 of this Annual Report. Additional information relating to the Company, including the Company's Annual Information Form, is available on SEDAR at www.sedar.com.

Management's Discussion and Analysis (MD&A) is reviewed and approved by the Company's Audit Committee at the end of each quarter. At year-end, the Board of Directors also reviews and approves the MD&A and the audited consolidated financial statements.The MD&A contains forward looking statements which are subject to risks, uncertainties and assumptions that are more fully described throughout this MD&A. Actual results may vary significantly from those expected.

The crude oil and natural gas service sector in Canada, where Enerflex's operations are currently concentrated, generally recorded sequentially stronger results in each quarter of 2003 as a result of increased spending by oil and gas producers in a period of high commodity prices. Results in 2002 were weaker as customer spending was depressed, particularly in comparison to a very strong 2001.

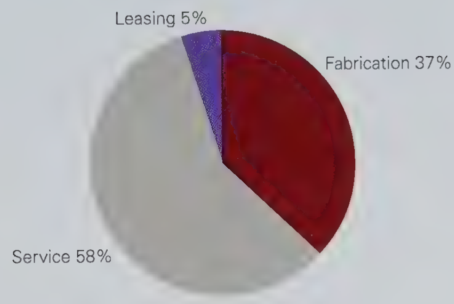
2003 revenue

$515.5 million



2002 revenue

$326.7 million



Consolidated results

In 2001 and 2002 Enerflex made three acquisitions, the largest of which was EnSource Energy Services Inc. ("EnSource"). Results for 2003 include the operations of EnSource for the entire year, whereas results for 2002 include EnSource operations for five and one-half months commencing the date of acquisition, July 18, 2002. In 2003 Enerflex concentrated on strengthening the management of each of its businesses and the integration of EnSource operations. The re-organization of management was substantially complete by the end of the year. In 2004, the Company will continue to evaluate and improve its key business processes to ensure that operations are both efficient and well-controlled.

Summary Annual Statistics

(Thousands, except per share amounts)	**2003**	2002	2001
Revenue	**$ 515,528**	$ 326,706	$ 375,040
Net income	**20,383**	9,232	22,454
Per common share – basic	**0.92**	0.51	1.51
– diluted	**0.91**	0.51	1.49
Cash dividends per common share	**0.40**	0.40	0.40
Total assets	**457,674**	451,211	222,146
Total long-term liabilities	**$ 63,561**	$ 63,458	$ 35,879

Summary Quarterly Statistics

	2003				2002			
(Thousands, except per share amounts)	**Q4**	**Q3**	**Q2**	**Q1**	Q4	Q3	Q2	Q1
Revenue	**$ 144,185**	**$ 124,153**	**$ 115,311**	**$ 131,879**	$110,720	$112,046	$ 54,257	$ 49,683
Net income	**7,217**	**5,429**	**3,309**	**4,428**	3,040	2,948	3,214	30
Per common share – basic	**0.33**	**0.24**	**0.15**	**0.20**	0.14	0.14	0.22	0.00
– diluted	**$ 0.32**	**$ 0.24**	**$ 0.15**	**$ 0.20**	$ 0.14	$ 0.14	$ 0.22	$ 0.00

Consolidated revenue in 2003 increased by $188.8 million, or 57.8%, compared with 2002 and $140.5 million, or 37.5%, compared with 2001. The revenue growth in 2003 resulted principally from the inclusion of a full year of operations from EnSource businesses and from an increase in compressor package sales. In 2001, compression package sales were the highest in the Company's history. Compressor package sales in 2002 were sharply lower as a consequence of lower natural gas production infrastructure spending and a loss of market share. In 2003, particularly in the second half of the year, revenues rose both as a result of increased capital spending by oil and gas producers and improvement in the Company's market share.

Net income for 2003 increased by 121% to $20.4 million compared with 2002, but was 9.2% lower than in 2001. On a per share basis, 2003 net income increased by 80.4% compared with 2002, and decreased 39.1% compared with 2001. Earnings per share reflect the impact of issuing 7.4 million common shares in mid-2002 to effect the EnSource acquisition. Gross margins were 20.2% in 2003, 21.4% in 2002, and 19.5% in 2001. The movement in gross margins occurs principally because of changing proportions of revenue from fabrication, which tends to have lower margins, and service. Fabrication produced 46.0% of the Company's revenue in 2003, 36.7% of revenue in 2002 and 62.2% in 2001.

Selling, general and administrative ("SG&A") expenses

SG&A expenses were $72.5 million in 2003, compared with $53.3 million in 2002 and $35.2 million in 2001. Total costs have risen over the past two years due to the EnSource acquisition and the addition of international operations. SG&A as a percentage of revenue was 14.1% in 2003, 16.3% in 2002 and 9.4% in 2001. The Service business unit generally has higher SG&A as a percent of revenue than the Fabrication business unit due to the service branch infrastructure. A lower proportion of Fabrication revenues and a higher proportion of Service revenues causes SG&A as a percentage of revenue to increase. There was improvement in this ratio in 2003, but management is focused on reducing the ratio to below 12%. SG&A as a percentage of revenue was 12.6% in the fourth quarter of 2003. Costs in 2003 include $2.2 million for restructuring of management and head office functions, and a $1.2 million provision for a loss on a legacy international contract that is subject to arbitration.

A significant portion of management remuneration is at risk based on pre-tax earnings and return on capital employed (ROCE). ROCE is a non-GAAP measure that is calculated by dividing the sum of pre-tax earnings plus interest expense by the sum of total interest-bearing debt plus shareholders' equity. Management bonus and employee profit sharing is 10% of pre-tax income when pre-tax ROCE is below 22.5%, and escalates by 0.5% for each 1% increase in ROCE. A maximum of 15% of pre-tax income is reached when ROCE is 32.5% or higher. This plan encourages management to increase earnings while prudently managing capital requirements. In 2003, ROCE improved to 10.0% compared with 6.9% in 2002. Management bonus and profit sharing included in SG&A was $3.2 million in 2003 compared with $1.6 million in 2002.

In the last half of 2003, both industry spending and Enerflex market share increased, leading to improved financial results. Fabrication revenue increased by 87.8% in 2003

Foreign exchange

Most international fabrication work is quoted in U.S. dollars. As the U.S. dollar depreciates, the Company's Canadian dollar revenue falls. The U.S. dollar depreciated by 18.2% against the Canadian dollar during 2003. In the first half of 2003, Enerflex estimates that its fabrication margins were reduced by $1.2 million due to this issue.

In mid-2003, Enerflex initiated a program to mitigate the impact of exchange rate fluctuations by matching expected future U.S. dollar denominated cash inflows with U.S. dollar liabilities, principally bank debt and accounts payable. For example, when Enerflex is awarded a U.S.$1 million contract, it converts an equivalent amount of its bank debt from Canadian to U.S. dollars. The foreign debt is repaid when Enerflex receives payment from its customer. The result is that any gain or loss in margins resulting from exchange fluctuations is offset by gains or losses on U.S. dollar liabilities. In 2003, foreign currency gains were $2.0 million, compared with a nominal loss in 2002. At December 31, 2003, the Company's bank debt included U.S.$30.7 million of bank overdrafts and LIBOR loans.

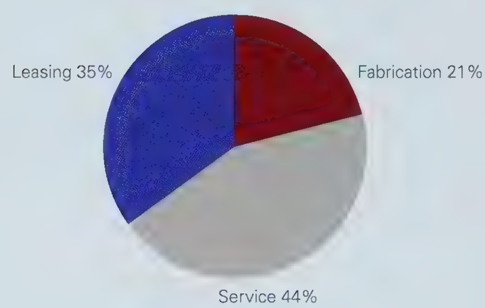
Enerflex does not hedge its exposure to investments in foreign subsidiaries, which are largely self-sustaining. Exchange gains/losses on net investments in foreign subsidiaries are accumulated in Shareholders' Equity as a "Cumulative translation adjustment." The cumulative translation adjustment credit increased from $0.6 million at the end of 2002 to $1.5 million at the end of 2003 as appreciation in the value of our European and Australian subsidiaries was partially offset by a reduction in our U.S. subsidiary.

Interest costs increased to $5.3 million in 2003, compared with $3.6 million in 2002 as a result of debt assumed and costs incurred for the acquisition of EnSource. Enerflex has benefited from low interest rates as its bank debt is subject to floating rates. However, wider corporate credit spreads in the market, combined with the greater leverage Enerflex carried following the EnSource acquisition, increased the Company's borrowing margin by approximately 1.25% in late 2002. The Company pays its lenders a margin over the Canadian bankers' acceptance rate, or the U.S. LIBOR rate, which varies depending on the ratio of debt to earnings before interest, taxes, depreciation and amortization (EBITDA) for the trailing twelve months. Over the past year, Enerflex has substantially reduced its debt while increasing EBITDA. As a result, effective September 1, 2003 the margin was reduced by 0.5%, to 1.5% on the operating loan and 2.0% on the term loan, and will decline by a further 0.5% when the debt to EBITDA ratio is less than 1.

Income tax expense was $10.8 million in 2003 compared with $5.0 million in the prior year. The increase in tax expense is a result of higher pre-tax earnings in the current year. The effective rate of income tax in 2003 was 34.7%, compared to 35.3% in 2002. Contributing to the change in the effective tax rate was a change in tax estimate relating to the timing of realizing future tax assets and liabilities, which were partially offset by an increase in capital taxes payable in 2003. The Company expects the effective tax rate in 2004 will continue to be less than 35% with a larger relative proportion being current tax. The utilization of losses in 2003 arising from the EnSource Energy Services Inc. acquisition in 2002 resulted in a reduction in current taxes otherwise payable for the current year.

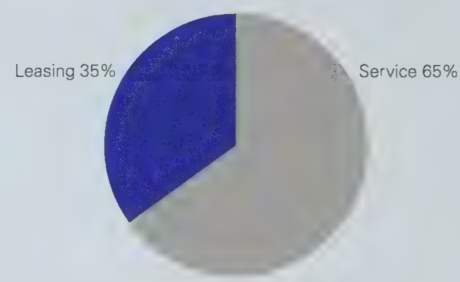
2003 income

$36.5 million before interest and taxes



2002 income

$17.9 million before interest and taxes



(Fabrication income was negative, therefore excluded from above 2002 income total.)

Segmented results

Following the business combination with EnSource, Enerflex established three business segments: Service, Fabrication and Leasing. The business segments are comprised of the following operating units:

Service

Syntech's electrical, instrumentation and controls business in Canada; and,

Mechanical Service businesses in the United States, Canada (Pamco and Jiro), the Netherlands (Landré Ruhaak), Germany (S&L Energie), Australia and Indonesia (Gas Drive Systems);

Fabrication

Compression – Enerflex Compression, including manufacturing facilities in Calgary, Alberta and Odessa, Texas, and the Jiro low-horsepower screw compressor manufacturing facility in Stettler, Alberta;

Production & Processing – Presson's modular natural gas processing facilities manufacturing in Nisku, Alberta, and Mactronic's waste gas systems design and manufacturing in Red Deer, Alberta;

Compression Services (formerly known as Re-engineered Solutions) – re-engineering and refurbishment of existing compression equipment both in a Calgary facility and at customer field locations; and,

Power – power generation equipment fabrication in our main Calgary manufacturing facility;

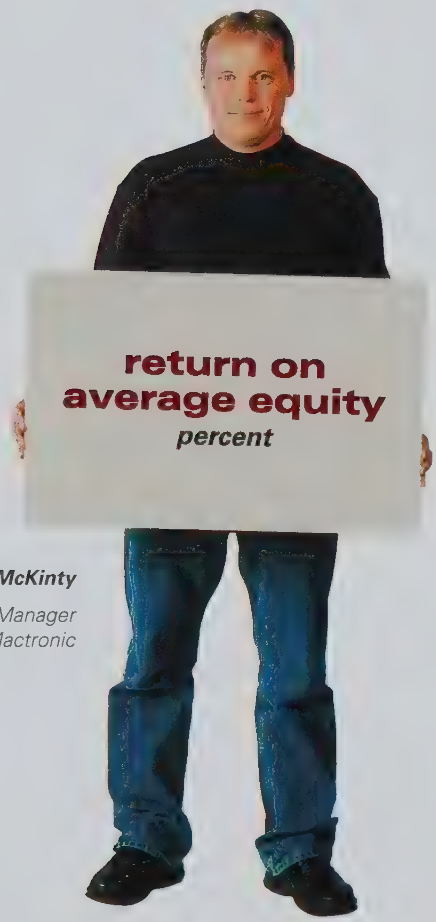
Leasing

Compression, power generation, and natural gas processing equipment rentals, primarily in Canada.

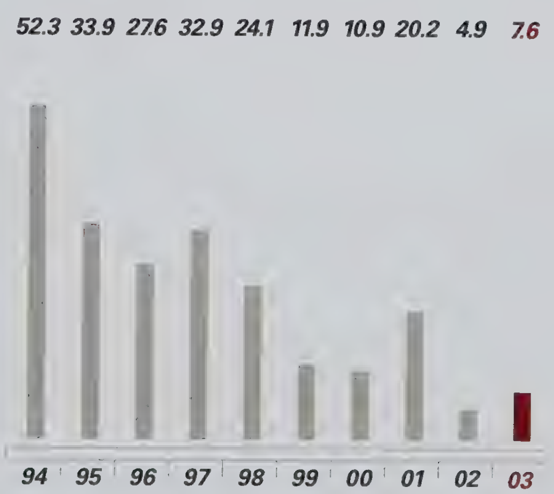
Service

The Service business segment provides a complete line of mechanical, and electrical, instrumentation and control ("EI&C") services to the oil and gas industry through an extensive branch network in Canada, as well as operations in the United States, the United Kingdom, the Netherlands, Germany, Australia, and Indonesia. Responsibility for Compression Services was transferred to Fabrication in the third quarter of 2003 and comparative figures have been reclassified. Service is the Company's largest business segment, employing 55% of our staff and generating half of the Company's revenue. Key performance metrics include labour utilization, top line revenue, gross margin percentages, and general and administrative costs as a percentage of revenue.

Through its various divisions, Enerflex is the authorized distributor for Waukesha engines and parts in Canada, Australia, Indonesia, Papua New Guinea, the Netherlands, Germany, and Spain. Mechanical Service revenues tend to be fairly stable as equipment maintenance is required regardless of the commodity price cycle.



Mike McKinty
Operations Manager
Mactronic



Service revenue was $256.4 million in 2003, compared with $191.0 million in 2002. Mechanical Service and Syntech each contributed approximately half of the revenue generated by our Service business segment in 2003.

Syntech's revenues are more cyclical as revenue is generated from both maintenance spending and from new infrastructure investment.

(Thousands)	**2003**	2002
Segment revenue	**$ 269,036**	$ 193,578
Intersegment revenue	**(12,618)**	(2,570)
External revenue	**$ 256,418**	$ 191,008
Income before interest and taxes	**$ 15,882**	$ 14,527

Service revenue was $256.4 million in 2003, compared with $191.0 million in 2002. Mechanical Service and Syntech each contributed approximately half of the revenue generated by our Service business segment in 2003. However, approximately 70% of income before interest and taxes was earned by Mechanical Service. While the two operating units share common characteristics, the Company determined that separate management is required to properly address the strategic and operating matters that are unique to each business. The change in management structure took effect on October 1, 2003 and had a positive impact on results in the fourth quarter of the year.

Mechanical Service revenues for 2003 were consistent with the prior year. In North America, which accounted for 69.6% of revenue, sales decreased by 1.1% from 2002. Activity levels were low at the beginning of the year, but increased as the year progressed. Customers are tending to increase the number of hours their equipment operates before performing maintenance, which has reduced demand for both parts and service. Enerflex has offset a reduction of sales in its historical markets with the addition of Jiro Service in mid-2002, as part of the EnSource acquisition, the initiation of service operations in the United States, and the acquisition in late 2001 of Landré Ruhaak in the Netherlands. Gross margins for Mechanical Service were equivalent to the prior year, but increased SG&A associated with new operations reduced income before interest and taxes by $1.6 million. Mechanical service is focused on increasing income before interest and taxes as a percentage of revenue through enhanced customer relationships and vigilant cost control.

The Syntech operating unit realized improved results in the last half of 2003. Syntech generated revenue of $124.3 million in 2003 compared with $68.2 million in the five and one-half months of 2002 following the EnSource acquisition. This business is highly competitive. Low margins, compared with Mechanical Service, and the cost of

maintaining a branch infrastructure throughout Alberta, Saskatchewan and northeast British Columbia resulted in low earnings before interest and taxes in both 2002 and 2003. Syntech has worked to strengthen its business by:

- Eliminating a number of unprofitable lines of business at the end of the first quarter of 2003;
- Relocating several Canadian branches, and closing a small U.S. branch;
- Selling its interest in a United Arab Emirates joint venture in the third quarter for proceeds of $1.6 million and a gain on sale of $0.2 million; and,
- Building a Syntech management team that is focused solely on building a profitable electrical, instrumentation and controls business in western Canada.

Syntech plans to cut costs and increase cross-selling opportunities by co-locating its head office in Enerflex's head office building in Calgary in the second quarter of 2004.

Fabrication

The Fabrication business segment engineers and assembles standard and custom-designed compression packages, production and processing equipment and facilities, and power generation systems. The key performance drivers for this business segment are market share and plant utilization. Plant overhead costs, which are charged to jobs at a fixed rate per labour hour, are over-absorbed and credited to cost of sales in periods of high activity, and under-absorbed and charged to cost of sales in periods of low activity. This has a significant impact on margins over the course of a business cycle.

(Thousands)	**2003**	2002
Segment revenue	**$ 259,715**	$ 136,901
Intersegment revenue	**(22,801)**	(17,140)
External revenue	**$ 236,914**	$ 119,761
Income before interest and taxes	**$ 7,758**	$ (4,325)

The Fabrication business tends to have more volatility in revenue and income before interest and taxes than Enerflex's other business segments. Revenues are derived primarily from infrastructure investment by natural gas producers. Capital spending was high in 2001, but dropped sharply in 2002 and early 2003. The impact of the decrease in industry investment was magnified by a loss of compressor package market share.

In the last half of 2003, both industry spending and Enerflex market share increased, leading to improved financial results. Fabrication revenue increased by 97.8% in 2003 as a result of increased compression sales and the inclusion of a full year of operations of Presson, Mactronic and Jiro. While definitive market share data is difficult to obtain, Enerflex estimates that its Canadian large horsepower compressor package market share doubled in the last half of the year compared to early 2003. This was largely due to the introduction of a significantly improved product, the Gen III compressor package, which resulted in sales of $47 million for 36 units, including 4 units sold

Fabrication revenue increased by 97.8% in 2003 as a result of increased compression sales and the inclusion of a full year of operations of Presson, Mactronic and Jiro.

to the Company's Leasing business for $4.2 million. The compression operating unit's goal in 2004 is to extend this success into its other reciprocating and screw compressor products.

Notwithstanding continued strong competition in our markets, Fabrication gross margins improved in 2003 as higher shop utilization enabled the Company to fully apply overheads to projects. Revenues and margins on U.S. dollar-denominated jobs were reduced by approximately $3 million in 2003 as a result of the 18.2% decline in the U.S. dollar over the course of the year. This has been partially offset by exchange gains on U.S. debt, as more fully described in the foreign exchange section of this report. Income before interest and taxes in 2003 was also reduced by approximately $2 million of bad debt and warranty provisions for two projects completed in prior years. The resolution of such legacy issues, combined with management's commitment to improve project execution, from proposal through delivery and start-up, provide the opportunity for continued improvements in earnings in 2004.

In prior years, the Compression and Power operating units followed the policy of recording revenue upon substantial technical completion of a project (the "completed project" method), while the Production and Processing operating unit followed the percentage of completion method. The completed project method can result in large fluctuations in earnings when large projects are being undertaken, because revenue and cost of sales are not recognized in the statement of income until the project is substantially complete. As the Company expects that large, turnkey projects will provide an increasing proportion of revenue, the percentage of completion method of revenue recognition was adopted throughout our Fabrication business segment in 2003. This change in accounting policy is described in Note 1 to the financial statements.

Leasing

Our Leasing business segment provides a variety of leasing and rental alternatives for gas compression, power generation and natural gas processing equipment. At the end of 2003 the Enerflex lease fleet was comprised of approximately 300 compressor and power generation units, with 78,000 horsepower. The key performance drivers in this business are the fleet utilization and rental rates. The Company's lease fleet is located principally in western Canada. Expansion into the United States is planned, but is being done on a selective basis as lease rates for standard equipment in that market are low.

(Thousands)	**2003**	2002
Segment revenue	**$ 22,281**	$ 15,943
Intersegment revenue	**(85)**	(6)
External revenue	**$ 22,196**	$ 15,937
Income before interest and taxes	**$ 12,864**	$ 7,717
Capital expenditures, net of proceeds on disposal	**$ 9,888**	$ 7,297

Revenue in 2003 increased by 39.3% to $22.2 million compared with $15.9 million in the prior year. The increase results from including a full year of Jiro compressor rentals, and higher equipment utilization rates. Historically, utilization rates approximated 85%, while in the last half of 2002 utilization fell below 80% and remained near 80% through the first half of 2003. Over the last half of 2003 utilization rates improved steadily to exit the year above 85%.

In 2003, Leasing sold 55 compression units from its fleet, for gross proceeds of $11.0 million and a gain on sale of $2.0 million. The sale of units generally occurs when customers exercise their contractual option to purchase the equipment. Gains on sale in 2003 were larger than usual, particularly in the first quarter of the year, and are not expected to continue at that level in 2004. To satisfy growing demand for leased compression, Enerflex added 71 units to its fleet in 2003, mainly in the last half of the year, for an investment of $22.5 million. This turnover of assets renews the fleet, resulting in an average fleet age of less than five years.

Leasing expects continued growth in demand for its products in Canada, and has targeted specific geographic regions for expansion in the United States. Leasing does not increase the capital invested in its fleet unless it has lease contracts. Growth in the lease fleet is expected to be the largest investment opportunity for the Company in 2004.

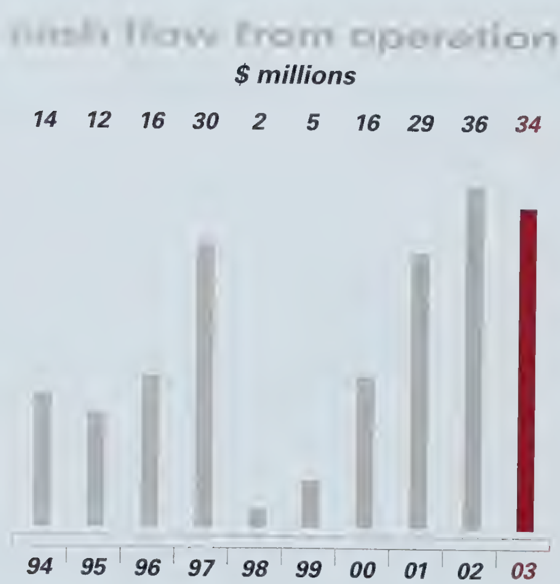
The leasing business is a significant contributor to earnings, despite its low proportion of overall company revenue. In addition, Enerflex Leasing makes our other business segments stronger. Leasing is a significant customer of our compression fabrication business, as almost all of its equipment is purchased from Fabrication. Service also benefits because the majority of Leasing customers use Pamco and Jiro to perform routine maintenance over the lease term.

Accounting practices in the compression leasing business vary significantly from company to company. Key accounting policies followed by our equipment leasing business are as follows:

- All equipment and related debt are recorded on the balance sheet. No equipment is in special purpose entities. There is no "off-balance sheet" debt.
- Compression equipment is depreciated over its useful life, which has been estimated to be approximately 14 years. Depreciation expense is recorded regardless of whether the equipment is in service or idle.
- When, under the terms of a rental contract, the Company is responsible for maintenance and overhauls, the expense is accrued monthly to match maintenance expense with the related revenue. Maintenance and overhaul costs incurred are charged to the accrued maintenance liability and are not capitalized.

Financial condition and liquidity

Enerflex generated cash flow from operations, before changes in non-cash working capital, of $34.9 million in 2003, compared with $22.7 million in 2002. After changes in non-cash working capital, cash flow from operations was $34.1 million in 2003 and $36.3 million in 2002. Cash generated funded a reduction in debt, net of cash, of $19.9 million, $3.7 million of net additions to rental assets and dividends to our shareholders of $8.9 million. In 2002 operating cash flow was favorably impacted by a $13.6 million reduction of non-cash working capital. In 2003, non-cash working capital from operations increased by $0.8 million as a result of a $31.1 million increase in accounts receivable, offset by a $25.3 million decrease in inventory, income taxes receivable and assets held for sale, and an $8.1 million increase in accounts payable. The increase in receivables reflects a combination of stronger sales in 2003 and the impact of our accommodating customer requests to defer payments for compression equipment into 2004. Enerflex expects to reduce its working capital requirements in 2004.



In the first half of 2002 the Company purchased 71,600 common shares for a total cost of $1.4 million pursuant to its Normal Course Issuer Bid. In the last half of 2002 and in 2003 Enerflex did not purchase common shares and the issuer bid terminated in July 2003. Subsequent to the acquisition of EnSource, Enerflex has directed the majority of cash generated from operations and asset sales to repay debt. On February 2, 2004 the Company had 22,227,188 common shares outstanding.

The acquisition of EnSource in July of 2002 was effected by issuing 7.4 million Enerflex common shares and the assumption of EnSource debt, as shown in Note 2 to the financial statements. Following the acquisition of EnSource, the Company established new bank credit facilities. The Credit Agreement provides for a $100 million revolving operating facility and a $75 million extendible revolving term loan facility. The availability of the operating facility is subject to a monthly borrowing base calculation which considers eligible accounts receivable and inventories. Under the term loan facility Enerflex has drawn $68.4 million. If the term loan is not extended at the end of its term, which is extendible at the banks' option on June 30 of each year, it will be repayable in 24 equal consecutive monthly principal installments. The loans are secured by a first floating charge over all of the assets of the Company, and require the Company to meet certain covenants, including a limitation on the debt to EBITDA ratio. Enerflex was in full compliance with these covenants at December 31, 2003. These credit facilities provide the financing required to support our operating requirements, as well as the flexibility to pursue growth opportunities.

On January 31, 2003, Enerflex sold the assets of its surface drilling equipment rental business, Canadian Select Energy West. This business did not align with the Company's core expertise of delivering products and services between the wellhead and major pipeline transportation systems. Proceeds from the divestiture of approximately $6.0 million, including working capital, were applied to reduce bank indebtedness.

Contractual obligations and committed capital investment

The Company's contractual obligations at December 31, 2003, assuming that the extendible revolving term loan facility is renewed on June 30, 2004, were as follows:

Contractual Obligations

	Payments due by period				
(Thousands)	Less than one year	1-3 years	4-5 years	Thereafter	Total
Leases	$ 7,079	$ 10,194	$ 2,524	$ 4,868	$ 24,665
Purchase obligations	1,243	692	–	–	1,935
Total	$ 8,322	$ 10,886	$ 2,524	$ 4,868	$ 26,600

The majority of the Company's lease commitments are operating leases for Service vehicles.

The majority of the Company's purchase commitments relate to long term information technology and communications contracts entered into in order to reduce the overall costs of services received.

In addition to the contractual obligations above, the Company is committed to capital investment of $2.3 million in 2004. Of that, $1.0 million relates to the construction of a larger facility in Syntech's northwestern Alberta operations; $0.7 million for the expansion of office space at the Company's Nisku operation, due to increasing business volumes and $0.3 million relates to software investments.

Other accounting matters

Goodwill

The Company acquired three businesses in 2001 and 2002, in accordance with its strategic objectives of expanding internationally and into complementary lines of business. Enerflex allocated the excess of the purchase price over the value attributed to net tangible and intangible assets to goodwill. The book value of goodwill at December 31, 2003 is $112.5 million, of which $104.9 million arose from the EnSource acquisition, and has been allocated to each of the Company's three business segments. Goodwill is assessed for impairment at least annually. It has been determined that there is no impairment in the value of goodwill in any of our business segments.

Stock Options

Enerflex has a practice of granting options to management and directors once per year at market prices. Stock options are a long-term incentive and employees benefit only if shareholders also realize appreciation in the value of their investment. Enerflex measures compensation cost based on the intrinsic value of the award on the date the options are granted. Accordingly, as the exercise price and the market price on the grant date are equal, no stock option compensation cost has been recognized. In 2004, Enerflex will adopt the fair value method of accounting for stock options. Had the new accounting policy been in place in 2003, net income would have been reduced by $0.2 million. Adoption of the policy will result in a reduction of retained earnings of $0.7 million on January 1, 2004. The Company estimates that stock option expense will approximate $0.6 million in 2004. Details concerning our accounting policy and assumptions are shown in the notes to our financial statements.

Asset Retirement Obligations

The Canadian Institute of Chartered Accountants has issued new recommendations for accounting for Asset Retirement Obligations. The recommendations, which become effective in 2004, are not expected to have a significant impact on the Company's financial statements.

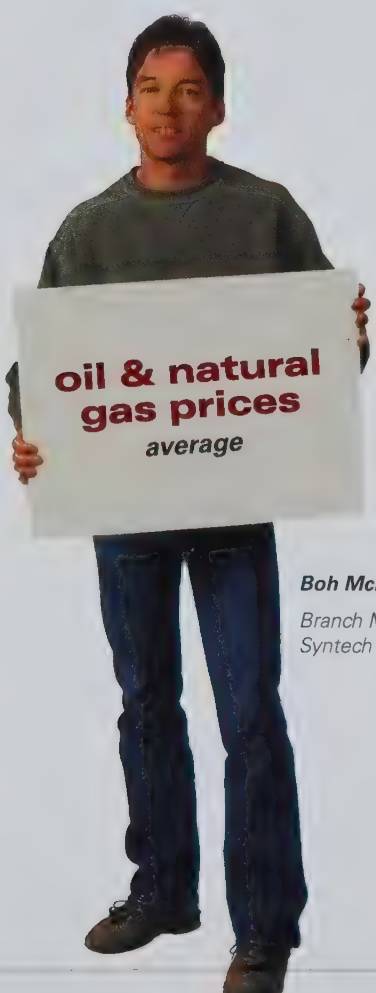
Enerflex is a market leader in Canada and maintains an extensive branch network, as proximity to customer locations is key to earning business.

Outlook for markets and competition

As a Canadian-based provider of equipment and services to the global oil and gas industry, Enerflex's business prospects are influenced by several market factors. These include the business outlook for oil and gas producers, prospects for natural gas infrastructure development, as well as the business outlook and competitive environment within the natural gas compression industry.

Industry outlook – oil and gas producers

While Enerflex continues to build its international presence, the Company's fortunes are largely tied to natural gas capital and operating expenditures in western Canada. Almost 20,000 wells were completed in 2003, of which approximately 70% were natural gas wells. In 2004, industry analysts forecast that capital expenditures on plant and equipment will remain strong, but lower than in 2003. Many forecasters expect that, in the absence of significant discoveries, North American conventional natural gas production will decrease. Sustaining or increasing production volumes is progressively more dependent upon development of tight gas and coal bed methane, both of which require more compression than traditional reservoirs, and expansion in frontier regions such as the Northwest Territories. Higher natural gas prices than those experienced in the 1990s will be required to support gas development in these areas.



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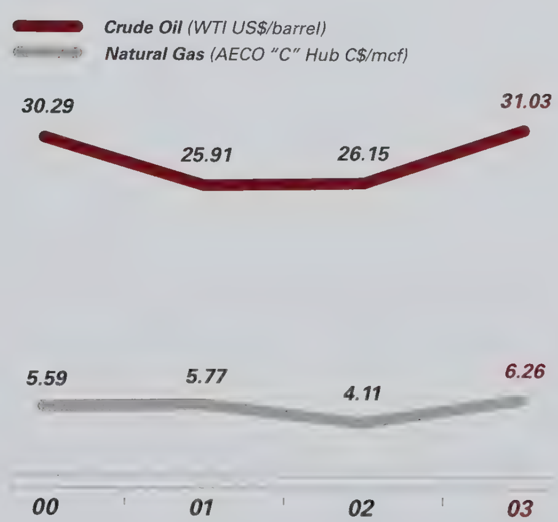
Branch Manager
Syntech



Competitive issues in the oil and gas service industry

Although the Canadian market continues to have distinct differences from the United States market, it is clear that a single North American market is developing. For this reason, investors should be aware of certain competitive issues in Canada, the United States and overseas markets.

Canada

The Canadian production and processing equipment and compressor packaging markets are very competitive. Several fabricators target the same customers as Enerflex, and fabrication floor space is not a constraint. To be successful, the Company must compete based on quality and service while remaining price competitive.

A number of new competitors have emerged to both our Syntech electrical and Pamco mechanical service businesses. Enerflex is a market leader in Canada and maintains an extensive branch network, as proximity to customer locations is key to earning business. Pamco has a competitive advantage as the authorized Waukesha distributor. Syntech does not have exclusive distributorships, but has developed proprietary control technology to help differentiate its business from the competition.

While more compression equipment is being rented each year in Canada, only about 5% of the existing population of compression equipment in Canada, measured by horsepower, is rented. The remaining 95% is owned by producers. Enerflex is a leader in the rental industry, supplying an estimated 25% of the Canadian market (calculated by horsepower).

United States

There are only two major competitors in the U.S. compression fabrication business. We believe that the U.S. market provides Enerflex with a strong opportunity to expand our business, which led to our 2002 acquisition of the assets of EFX Compression USA, a specialty natural gas compression equipment packager in Odessa, Texas. Enerflex strengthened the management of its U.S. subsidiary in 2003 to capitalize on this opportunity.

In the United States there is no dominant service provider such as Enerflex. In 2003, Enerflex used its Odessa, Texas facility as a platform to establish a service business in this large, fragmented market. The Company plans to extend its mechanical service capability into the Rocky Mountain region in 2004.

The United States market continues to be more heavily weighted towards compression rentals than the Canadian market. Approximately 30% of the United States market is served by rental compression equipment while 70% is owned by producers and pipeline companies. Rental rates are low in the United States as there has been a surplus of available equipment. Enerflex plans to compete in certain niche markets where returns on capital are appropriate.

International

Internationally, we face the same competitors as in North America. Most significant North American production equipment and compression fabricators pursue international business. International contacts developed by Presson and Mactronic over the past ten years have increased the Company's exposure to international opportunities.

Through our Australian subsidiary, Gas Drive Systems, expansion into Indonesia, and the acquisition of Landré Ruhaak in late 2001, Enerflex has become a significant player in the international service market.

Enerflex is not actively pursuing leasing business outside of North America.

Business risks

While demand for Enerflex's product and services is largely a function of supply, demand and price of natural gas, many other factors can affect the fortunes of the business either positively or negatively. Enerflex encourages all investors to read and be aware of business risks and the Company's response to them.

Personnel

Qualified and motivated personnel are critical to the success of our businesses. There are few barriers to entry in a number of our businesses, so retention of staff is essential.

Markets and operations

Energy prices affect Enerflex, as the majority of our customers generate cash flow from both crude oil and natural gas. The prices for these commodities are determined by supply, demand, government regulations relating to natural gas production and processing, and international political events. In common with commodity prices, the market for capital goods required by our customers is both cyclical and, at times, highly volatile.

Foreign exchange

Enerflex, a Canadian company, is exposed to foreign exchange risk when it buys or sells goods or services in foreign currencies. The company manages most of this inherent risk through a variety of contractual means, but currency risk cannot be eliminated entirely. Enerflex has material foreign subsidiaries in Australia, the Netherlands and the United States, which expose the Company to changes in the exchange rates for the Australian dollar, Euro, and U.S. dollar, respectively.

The cyclical nature of the energy industry

Enerflex is structured to be profitable in both high and low periods of the energy cycle. This is done through product breadth, international diversification and access to a variety of equipment financing methods. Since becoming a public company in 1993, Enerflex has generated positive cash flow even in challenging times.

Qualified and motivated personnel are critical to the success of our businesses

Foreign operations

Enerflex sells products and services throughout the world. While this diversification is desirable, it can expose the Company to risk related to issues such as quality of receivables. The Company mitigates this risk by dealing with credit-worthy institutions, and using credit insurance and letters of credit where appropriate.

Distribution agreements

One of the Company's strategic assets is its distribution and Original Equipment Manufacturer ("OEM") agreements with leading manufacturers, notably the Waukesha engine division of Dresser Industries, for engines and parts, and Ariel Corporation for compressors. Enerflex and its people make it a priority to maintain and enhance these strategic relationships.

Insurance

Enerflex carries insurance to protect the Company in the event of the destruction or damage to its property and equipment. Liability insurance is also maintained at prudent levels to limit exposure to unforeseen incidents. An annual review of insurance coverage is completed to assess the risk of loss and risk mitigation alternatives. Extreme weather conditions and terrorist activity have strained insurance markets leading to substantial increases in insurance costs and limitations on coverage.

Climatic factors

In North America, cold winters typically increase demand for and the price of natural gas, which increases customers' cash flow and can have a positive impact on Enerflex. Warm winters in western Canada, however, can both reduce demand for natural gas and make it difficult for producers to reach well locations. This restricts drilling and compression operations and negatively impacts Enerflex.

Seasonal demand

Demand for natural gas production equipment and services, and hence Enerflex business prospects, are influenced by seasonal demand. The first quarter of the year is generally accompanied by increased winter deliveries of equipment. Service is more active in the summer as producers overhaul equipment when natural gas prices tend to be lower.

Environment

Enerflex regularly conducts third-party environment audits to ensure that environmental issues do not materially affect financial condition or performance.

February 2, 2004

management's responsibility for financial information

To the Shareholders of Enerflex Systems Ltd. The accompanying consolidated financial statements and all information in the Annual Report have been prepared by management and approved by the Board of Directors. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada and, where appropriate, reflect management's best estimates and judgements. Management is responsible for the accuracy, integrity and objectivity of the consolidated financial statements within reasonable limits of materiality and for the consistency of financial data included in the text of the Annual Report with that in the consolidated financial statements.

To assist management in the discharge of these responsibilities, the Company maintains a system of internal controls designed to provide reasonable assurance that accounting records are reliable and assets are safeguarded.

The Audit Committee is appointed by the Board of Directors. The Audit Committee meets with management, as well as with the external auditors to satisfy itself that management is properly discharging its financial reporting responsibilities and to review the consolidated financial statements and the auditors' report. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for presentation to the shareholders. The external auditors have direct access to the Audit Committee of the Board of Directors.

The consolidated financial statements have been audited independently by Deloitte & Touche LLP on behalf of the shareholders, in accordance with generally accepted auditing standards. Their report outlines the nature of their audits and expresses their opinion on the consolidated financial statements.

P. John Aldred
Chairman, President and
Chief Executive Officer

February 2, 2004

auditors' report

To the Shareholders of Enerflex Systems Ltd. We have audited the consolidated balance sheets of Enerflex Systems Ltd. as at December 31, 2003 and 2002 and the consolidated statements of income, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Deloitte & Touche LLP
Chartered Accountants
Calgary, Alberta

February 2, 2004

consolidated balance sheets

(Thousands)	2003	2002
	December 31	
Assets		
Current assets		
Cash	**$ 6,741**	$ 5,027
Accounts receivable	**120,432**	89,327
Inventory (Note 3)	**71,162**	81,241
Income taxes receivable	**–**	5,905
Assets held for sale (Note 6)	**–**	4,591
Future income taxes (Note 13)	**4,065**	9,470
Total current assets	**202,400**	195,561
Rental equipment (Note 4)	**71,810**	68,092
Property, plant and equipment (Note 5)	**65,032**	70,309
Future income taxes (Note 13)	**2,748**	1,907
Intangible assets	**3,231**	2,815
Goodwill	**112,453**	112,527
	$ 457,674	$ 451,211
Liabilities and Shareholders' Equity		
Current liabilities		
Operating bank loans (Note 7)	**$ 27,627**	$ 45,254
Accounts payable and accrued liabilities	**70,163**	62,112
Income taxes payable	**4,683**	-
Future income taxes (Note 13)	**–**	2,235
Current portion of long-term debt (Note 7)	**17,097**	17,250
Total current liabilities	**119,570**	126,851
Long-term debt (Note 7)	**51,289**	51,750
Future income taxes (Note 13)	**12,272**	11,708
	183,131	190,309
Guarantees, commitments and contingencies (Note 12)		
Shareholders' equity		
Share capital (Note 8)	**176,928**	176,589
Cumulative translation adjustment	**1,501**	595
Retained earnings	**96,114**	83,718
	274,543	260,902
	$ 457,674	$ 451,211

See accompanying Notes to the Consolidated Financial Statements.

On behalf of the Board:

P. John Aldred, *Director*

Michael A. Grandin, *Director*

consolidated statements of income

(Thousands, except share amounts)	Year ended December 31 2003	2002
Revenue (Note 1)	**$ 515,528**	$ 326,706
Cost of goods sold	**411,569**	256,929
Gross margin	**103,959**	69,777
Selling, general and administrative expenses	**72,499**	53,348
Foreign currency (gains) losses	**(1,985)**	2
Gain on sale of assets	**(3,059)**	(1,492)
Income before interest and taxes	**36,504**	17,919
Interest	**5,280**	3,641
Income before income taxes	**31,224**	14,278
Income taxes (Note 13)	**10,841**	5,046
Net income	**$ 20,383**	$ 9,232
Net income per common share – basic (Note 9)	**$ 0.92**	$ 0.51
– diluted	**$ 0.91**	$ 0.51
Weighted average number of common shares	**22,212,700**	18,166,000

consolidated statements of retained earnings

(Thousands)	Year ended December 31 2003	2002
Retained earnings, beginning of year	**$ 83,718**	$ 83,089
Adjustment to retained earnings (Note 1)	**900**	–
Net income	**20,383**	9,232
Common shares purchased for cancellation	**–**	(1,181)
Stock options purchased	**–**	(20)
Dividends	**(8,887)**	(7,402)
Retained earnings, end of year	**$ 96,114**	$ 83,718

See accompanying Notes to the Consolidated Financial Statements.

consolidated statements of cash flows

(Thousands)	Year ended December 31 2003	2002
Operating Activities		
Net income	**$ 20,383**	$ 9,232
Depreciation and amortization	**14,680**	12,054
Future income taxes	**2,877**	2,868
Gain on sale of assets	**(3,059)**	(1,492)
	34,881	22,662
Changes in non-cash working capital	**(823)**	13,642
	34,058	36,304
Investing Activities		
Acquisition of EnSource Energy Services Inc. (Note 2)	–	(3,029)
Acquisition of assets of VR Systems, Inc.	–	(4,061)
Adjustment of Landré Ruhaak acquisition	–	(97)
Purchase of:		
Rental equipment	**(23,682)**	(17,711)
Property, plant and equipment	**(6,310)**	(3,325)
Proceeds on disposal of:		
Rental equipment	**19,943**	9,219
Property, plant and equipment	**3,538**	1,116
	(6,511)	(17,888)
Changes in non-cash working capital	**952**	815
	(5,559)	(17,073)
Financing Activities		
Decrease in operating bank loans	**(17,627)**	(16,244)
Increase in (repayment of) long-term debt	**(1,647)**	9,940
Stock options exercised	**339**	153
Common shares purchased for cancellation	–	(1,352)
Stock options purchased	–	(31)
Dividends	**(8,887)**	(7,402)
	(27,822)	(14,936)
Changes in non-cash working capital and other	**1,037**	732
	(26,785)	(14,204)
Increase in cash	**1,714**	5,027
Cash, beginning of year	**5,027**	–
Cash, end of year	**$ 6,741**	$ 5,027
Supplemental disclosure of cash flow information		
Interest paid	**$ 5,354**	$ 3,472
Interest received	**$ 321**	$ 322
Income taxes paid	**$ 5,080**	$ 15,094
Income taxes received	**$ 6,953**	$ 16

See accompanying Notes to the Consolidated Financial Statements.

notes to the consolidated financial statements

(Tabular dollar amounts in thousands, except per share or option amounts)

summary of accounting policies

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada. Certain prior year amounts have been reclassified to conform with the current year's presentation.

Incorporation and Basis of Presentation – Enerflex Systems Ltd. (the "Company") is incorporated under the Canada Business Corporations Act. The consolidated financial statements include the accounts of Enerflex Systems Ltd. and its subsidiaries. The accounts of EnSource Energy Services Inc. and its subsidiaries are included from July 19, 2002 (See Note 2).

Use of Estimates – The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and contingencies at the date of the consolidated financial statements, and revenues and expenses during the reporting period. Actual results could differ from those estimated. Significant estimates in the financial statements include percentage of completion of fabrication contracts, allowance for doubtful accounts, depreciation, overhaul accrual, obsolescence provisions, warranty obligations and commitments and contingencies.

Revenue Recognition – Revenues from the design, manufacture and installation of compression and power generation equipment are recorded using the percentage of completion method in 2003 and upon substantial technical completion in 2002 (See Note 1). Revenues from the fabrication of production and processing equipment are recognized using the percentage of completion method. Unearned revenue is applied against work in progress for financial statement presentation. Any foreseeable losses on contracts are charged to operations at the time they become evident. Revenues from parts and service sales are recorded when goods are shipped and services rendered. Revenue from equipment leases is recorded over the lease term. In 2003 and 2002, substantially all revenue from equipment leases was from operating leases.

Inventory – Manufacturing materials are recorded at the lower of cost (principally on the first-in, first-out method) and net realizable value. Repair parts are recorded at the lower of weighted average cost and net realizable value. Work in progress includes material, labour and manufacturing overhead, and is recorded net of unearned revenue on a contract by contract basis.

Rental Equipment and Property, Plant and Equipment – Rental equipment and property, plant and equipment are recorded at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the various classes of assets:

Asset Class	Estimated Useful Life Range
Buildings	5 to 25 years
Equipment	2 to 20 years
Rental Assets	5 to 15 years

Major renewals and improvements are capitalized. A provision is made in advance for major overhauls on rental equipment. No depreciation is provided on assets under construction. Repairs and maintenance costs are charged to operations as incurred.

Goodwill – Goodwill represents the excess of the purchase price over the value attributed to net tangible and intangible assets acquired.

Goodwill is assessed for impairment at least annually. The impairment test is based on earnings before interest, taxes, depreciation and amortization using multiples similar to those which would be used to value acquisitions of similar third party businesses, having regard to current economic circumstances.

Intangible Assets – Intangible assets represent the fair value of distributorship agreements acquired. Management has determined they have indefinite lives and, therefore, intangible assets are not amortized. Intangible assets are assessed for impairment at least annually.

Warranty Obligations – The Company accrues a liability for warranty obligations on the basis of historical claims history, as a percentage of revenue, specific to each business unit. Warranty costs incurred are charged against this liability.

Income Taxes – The Company uses the liability method of accounting for income taxes. Under this method, temporary differences between the tax basis of the Company's assets and liabilities and their carrying amounts result in future income tax assets and liabilities. Future income taxes are measured using income tax rates that, at the balance sheet date, are expected to apply when the liability is settled or the asset is realized.

Forward Exchange Contracts – In the normal course of business, the Company enters into short-term foreign currency forward exchange contracts with financial institutions to hedge assets, liabilities or future commitments denominated in a foreign currency. Gains and losses arising from these contracts offset the losses and gains from the underlying hedged transactions.

Foreign Currency Translation – Transactions and non-monetary balances denominated in foreign currency are translated into Canadian dollars using the exchange rates at the dates of the transactions; monetary balances are translated using the exchange rate at the date of the balance sheet.

The assets and liabilities of foreign operations considered financially and operationally independent are translated into Canadian dollars from their functional currencies using exchange rates at the balance sheet dates. Revenue and expense items are translated using the average rates of exchange throughout the year. Gains and losses resulting from this translation process are included in the cumulative translation adjustment in shareholders' equity in the consolidated balance sheets.

Stock-based Compensation Plan – The Company's stock-based compensation plan is described in Note 10. No compensation expense is recognized when stock options are granted to employees (See Note 11). Consideration paid by employees on exercise of stock options is credited to share capital.

Earnings Per Share – The Company uses the treasury method of calculating earnings per share.

Note 1. CHANGE IN ACCOUNTING POLICY

Revenue recognition

Effective January 1, 2003, the Company adopted a percentage of completion revenue recognition policy for fabrication activity. In the past, the Compression and Power operating segments had used the completed contract method, while Production and Processing used percentage of completion. Under the new method, revenue and costs of goods sold are recognized in income at each period end, based on the costs incurred including design, engineering, materials and labour to period end as a percentage of total expected costs. Any foreseeable losses on contracts are charged to income at the time they become evident. This method of revenue recognition more appropriately matches revenues and costs of sales to the period in which the activity occurred.

As a result of the adoption of this policy, the Company has adjusted retained earnings as at January 1, 2003 to reflect the percentage of completion of work in progress at December 31, 2002. The components of this adjustment are:

Revenue	$ 10,698
Cost of goods sold	9,279
Income taxes	519
Increase to retained earnings, at January 1, 2003	$ 900

Had this change in accounting policy not occurred, revenue recognized in 2003 would have been reduced by $16,923,000, cost of goods sold would have been reduced by $16,906,000, taxes would have been reduced by $5,000, resulting in a decrease in net income of $12,000.

Prior period financial statements have not been restated.

Note 2. 2002 ACQUISITION

On July 18, 2002, the Company acquired 92.4% of the issued and outstanding common shares of EnSource Energy Services Inc. ("EnSource"). On July 23, 2002, Enerflex mailed a Notice of Compulsory Acquisition to the holders of the remaining EnSource common shares which were not tendered to the offer, pursuant to Enerflex's right of compulsory acquisition under the Business Corporations Act (Alberta). EnSource became a wholly-owned subsidiary of Enerflex.

The acquisition was accounted for using the purchase method, and the results of operations of EnSource have been included with those of the Company from July 19, 2002. The final cost of the acquisition was $144,645,000. At December 31, 2002, certain items were reclassified in the purchase price equation to conform with Enerflex's financial statement presentation.

The final purchase price was allocated as follows:

December 31	2002
Shares issued	$ 141,040
Transaction costs	3,408
Fair value of options issued	197
	$ 144,645
Non-cash working capital	$ 38,631
Future income taxes	2,522
Property, plant and equipment	29,145
Rental assets	24,054
Assets held for sale	4,591
Other long-term assets	431
Goodwill	104,924
Bank indebtedness	(37,612)
Long-term debt	(22,041)
	$ 144,645

Note 3. INVENTORY

December 31	**2003**	2002
Finished goods	**$ 10,711**	$ 11,442
Manufacturing materials	**14,981**	23,409
Repair parts held for resale	**31,559**	34,203
Work in progress:		
Costs in excess of related billings	**17,791**	19,716
Billings in excess of related costs	**(3,880)**	(7,529)
	$ 71,162	$ 81,241

Note 4. RENTAL EQUIPMENT

December 31	**2003**	2002
Cost	**$ 87,121**	$ 78,637
Less accumulated depreciation	**(15,311)**	(10,545)
Net book value	**$ 71,810**	$ 68,092

Depreciation of rental equipment included in income in 2003 was $6,091,000 (2002 - $4,866,000), which was included in cost of goods sold.

Note 5. PROPERTY, PLANT AND EQUIPMENT

December 31	2003		2002	
	Cost	**Accumulated Depreciation**	Cost	Accumulated Depreciation
Land	**$ 9,551**	**$ –**	$ 9,699	$ –
Buildings	**53,281**	**(11,387)**	53,196	(8,210)
Equipment	**49,825**	**(36,238)**	41,269	(25,645)
Total	**$ 112,657**	**$ (47,625)**	$ 104,164	$ (33,855)
Net book value		**$ 65,032**		$ 70,309

Depreciation of property, plant and equipment included in income in 2003 was $8,589,000, of which $4,092,000 was included in cost of goods sold and $4,497,000 was included in selling, general and administrative expenses. In 2002, depreciation of $7,188,000 was included in income; $3,191,000 in cost of goods sold and $3,997,000 in selling, general and administrative expenses.

Note 6. ASSETS HELD FOR SALE

At December 31, 2002, the Company had assets held for sale of $4,591,000, comprising the assets of the Company's surface drilling equipment rental business, Canadian Select Energy West. The revenue and pretax income of these assets were $1,600,000 and $243,000, respectively, in the period July 19 to December 31, 2002. Canadian Select Energy West was included in the Fabrication segment for the purposes of segmented reporting.

On January 31, 2003, the assets held for sale were sold. There was no significant impact on income in 2003 resulting from this disposition.

Note 7. OPERATING BANK LOANS AND LONG-TERM DEBT

In November 2002, the Company entered into a $175,000,000 credit facility comprised of a $100,000,000 extendible operating line and a $75,000,000 extendible revolving term loan facility, which are secured by a $250,000,000 demand debenture, a general security agreement, and a guarantee from each material subsidiary. The credit facilities require the Company to maintain certain covenants. The Company was in compliance with these covenants at December 31, 2003 and 2002.

(a) At December 31, 2003, $27,627,000 (2002 - $45,254,000) of the operating line was drawn and was financed through Canadian dollar bankers' acceptances, which bear interest at bankers' acceptance rates plus a margin; U.S. dollar LIBOR borrowings, which bear interest at the London Interbank Offer Rate plus a margin; and bank overdrafts offset by cash deposits, as follows:

	2003	2002
Bankers' acceptances – CDN$	**$ 6,000**	$ 43,000
LIBOR borrowings – (2003 – U.S.$9,000; 2002 – U.S.$5,000)	**11,632**	7,898
Net overdraft (deposits) – CDN$ equivalent	**9,995**	(5,644)
Operating bank loans	**$ 27,627**	$ 45,254

If the operating facility is not renewed at the end of its term, it will be repayable on June 30, 2004.

(b) At December 31, 2003, $68,386,000 (2002 - $69,000,000) of the extendible revolving term loan facility was drawn, and was financed through:

	2003	2002
Bankers' acceptances – CDN$	**$ 49,000**	$ 69,000
LIBOR borrowings – (2003 – U.S.$15,000; 2002 – U.S.$ nil)	**19,386**	–
Long-term debt	**68,386**	69,000
Less current portion of long-term debt	**(17,097)**	(17,250)
Long-term debt	**$ 51,289**	$ 51,750

If the term loan facility is not renewed at the end of its term, it will be repayable in 24 equal consecutive monthly principal installments, commencing in July 2004.

Canadian dollar equivalent principal payments due over the next three years, without considering renewal at similar terms, are:

2004	$ 17,097
2005	34,193
2006	$ 17,096

(c) Interest and financing costs on long-term debt were $3,640,000 (2002 - $2,017,000). The Company's effective interest rate on long-term debt was 5.3% in 2003.

Note 8. SHARE CAPITAL

Authorized – The Company is authorized to issue an unlimited number of common shares and first preferred shares.

Issued

December 31	**2003**		2002	
	Common Shares	**Amount**	Common Shares	Amount
Balance, beginning of year	**22,191,188**	**$ 176,589**	14,861,100	$ 35,412
Shares and fair value of options issued pursuant to EnSource acquisition, net of issue costs	–	–	7,384,288	141,195
Stock options exercised	**36,000**	**339**	17,400	153
Common shares purchased	–	–	(71,600)	(171)
Balance, end of year	**22,227,188**	**$ 176,928**	22,191,188	$ 176,589

Common shares purchased – The Company did not purchase any shares pursuant to its normal course issuer bid in 2003, and when the issuer bid expired on July 25, 2003, it was not renewed. The Company will consider reinstatement of the issuer bid in 2004.

In 2002, the Company purchased and cancelled 71,600 common shares at an average price of $18.88, for a total cost of $1,352,000, including commissions, pursuant to the issuer bid.

Note 9. RECONCILIATIONS OF NET INCOME PER SHARE CALCULATIONS

Year ended December 31	2003			2002		
	Net Income	**Weighted Average Shares Outstanding**	**Per Share**	Net Income	Weighted Average Shares Outstanding	Per Share
Basic	**$ 20,383**	**22,212,700**	**$ 0.92**	$ 9,232	18,166,000	$ 0.51
Options assumed exercised		**453,650**			164,200	
Shares assumed purchased		**(361,736)**			(80,765)	
Diluted	**$ 20,383**	**22,304,614**	**$ 0.91**	$ 9,232	18,249,435	$ 0.51

Note 10. STOCK OPTIONS

Stock Options Purchased – During 2002, stock options to purchase 5,600 common shares were purchased for $20,000, net of income tax benefits of $11,000. In 2002, the plan was modified such that the Company will no longer purchase options for cash.

Stock Options Outstanding – The Company has reserved 1,500,000 common shares under the terms of its stock option plan, of which 349,040 were available for issuance at December 31, 2003. The exercise price of each option equals the average of the market price of the Company's shares on the five days preceding the date of the grant. Options normally vest at the rate of 20% on each of the five anniversaries of the date of grant, and expire on the tenth anniversary.

In addition, in 2002, the Company reserved 175,174 common shares under the terms of the conversion plan for EnSource stock option holders. The exercise price of each option equaled the exercise price of the previous EnSource stock option divided by the share conversion factor of 0.26 Enerflex shares per EnSource share. Options which replaced vested EnSource options were immediately vested at the time of grant, and the remaining vesting period was three years.

A summary of the status of the plan as at December 31, 2003 and 2002 and changes during the years then ended is presented below:

	2003		2002	
	Options	**Weighted Average Exercise Price**	Options	Weighted Average Exercise Price
Outstanding, beginning of year	**975,334**	**$ 23.05**	727,280	$ 23.81
Granted	**430,900**	**13.84**	451,774	22.46
Exercised	**(36,000)**	**9.43**	(17,400)	8.82
Purchased	**–**	**–**	(5,600)	15.43
Cancelled	**(418,812)**	**22.60**	(180,720)	25.97
Outstanding, end of year	**951,422**	**$ 19.59**	975,334	$ 23.05
Options exercisable, end of year	**462,291**		501,213	

The following table summarizes information about the stock options outstanding at December 31, 2003:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$7.81 – $9.33	134,200	1.17	$ 8.86	134,200	$ 8.86
$13.62 – $21.54	517,262	8.10	16.16	110,232	19.33
$25.20 – $29.50	186,580	4.53	28.15	124,591	27.98
$32.63 – $38.18	113,380	5.13	33.90	93,268	33.98
$7.81 – $38.18	951,422	6.07	$ 19.59	462,291	$ 21.58

Note 11. STOCK OPTION EXPENSE

The Company's stock option plan is described in Note 10.

On February 21, 2003, the Company issued 384,950 stock options to employees and directors at an exercise price of $13.62. On June 12, 2003 the Company reserved and subsequently issued 40,000 options at an exercise price of $15.22, which begin vesting in August of 2004. On October 28, 2003 the Company issued 4,000 options at an exercise price of $15.31, which begin vesting in February of 2004.

The Company measures stock option compensation cost based on the intrinsic value of the award at the date of issuance. As the exercise price and the market price are the same at the grant date, no compensation cost has been recognized on any option issuance. Had compensation cost for the Company's stock-based compensation plan been determined based on the fair value at the grant date for awards made under the plan subsequent to January 1, 2002, consistent with the fair value method of accounting for stock-based compensation, the Company's net income and earnings per share and pro forma net income and earnings per share would have been as follows:

Year ended December 31		**2003**	2002
Net income	As reported	**$ 20,383**	$ 9,232
	Pro forma	**20,167**	8,743
Earnings per share - basic	As reported	**0.92**	0.51
	Pro forma	**0.91**	0.48
Earnings per share - diluted	As reported	**0.91**	0.51
	Pro forma	**$ 0.90**	$ 0.48

The estimated fair value of the options issued in 2003 and 2002 has been determined using a modified Black-Scholes option pricing model with the following assumptions:

	2003	2002
Weighted average fair value per option	**$2.94**	$3.63
Weighted average risk-free interest rate	**4.1%**	4.3%
Weighted average expected life	**5.0 years**	4.6 years
Estimated volatility in the market price of the common shares	**25.1%**	25.0%
Dividend yield	**2.9%**	2.0%

Commencing on January 1, 2004, the Company will adopt the new requirements to expense stock options in the financial statements, retroactively without prior period restatement. This will result in a charge to opening retained earnings of $705,000 at January 1, 2004.

Note 12. GUARANTEES, COMMITMENTS AND CONTINGENCIES

At December 31, 2003 the Company had outstanding letters of credit issued in lieu of holdbacks, performance guarantees and bid bonds of $6,078,000 (2002 - $6,140,000) of which $2,155,000 (2002 - $1,506,000) are insured by Export Development Canada.

The aggregate minimum lease payments for operating leases for equipment, automobiles and premises are $24,665,000 and amounts payable for the next five years and thereafter are:

2004	$ 7,079
2005	6,143
2006	4,051
2007	1,843
2008	681
Thereafter	4,868
	$ 24,665

In addition, the Company has purchase obligations over the next three years:

2004	$ 1,243
2005	442
2006	250
	$ 1,935

The Company is involved in litigation and claims associated with normal operations. Management is of the opinion that any resulting settlement would not materially affect the financial position or results of operations of the Company.

Note 13. INCOME TAXES

The provision for income taxes differs from that which would be expected by applying statutory rates. A reconciliation of the difference is as follows:

Year ended December 31	**2003**	2002
Income before income taxes	**$ 31,224**	$ 14,278
Canadian statutory rate	**36.7%**	39.2%
Expected income tax provision	**11,459**	5,603
Add (deduct)		
Manufacturing and processing profit reduction	**(287)**	(21)
Income taxed in jurisdictions with lower tax rates	**(468)**	(81)
Other	**137**	(455)
Income tax provision	**$ 10,841**	$ 5,046

The composition of the income tax provision is as follows:

Year ended December 31	**2003**	2002
Current income taxes	**$ 7,964**	$ 2,178
Future income taxes	**2,877**	2,868
Income tax provision	**$ 10,841**	$ 5,046

The computation of the Company's provision for income taxes involves tax interpretations, regulations and legislation that are continually changing. There are tax matters that have not yet been confirmed by the various tax authorities; however, management believes that the provision for income taxes is adequate.

The tax effects of the significant components of temporary differences that give rise to future income tax assets and liabilities as at December 31 are as follows:

	2003		2002	
	Assets	**Liabilities**	Assets	Liabilities
Current:				
Provisions	**$ 4,065**	**$ –**	$ 3,806	$ 2,235
Tax losses	**–**	**–**	5,664	–
	4,065	**–**	9,470	2,235
Long-term:				
Tax losses	**1,981**	**–**	–	–
Capital assets	**767**	**12,272**	1,907	11,708
	2,748	**12,272**	1,907	11,708
	$ 6,813	**$ 12,272**	$ 11,377	$ 13,943

The Company has available tax losses of $5,000,000, the benefit of which has been recognized based on the expected period of utilization. These losses expire from time to time up to 2022.

Current future income tax assets result from deductible temporary differences between the tax basis of the Company's current assets and liabilities and their carrying amounts. These relate primarily to provisions for overhaul, restructuring costs, doubtful accounts receivable and warranty expense and non-capital loss carryforwards expected to be utilized in the following year.

Long-term future income tax assets result from deductible temporary differences between the tax basis of the Company's property, plant and equipment and its carrying amount and non-capital loss carryforwards not expected to be utilized in the following year.

Current future income tax liabilities result from deductible temporary differences between the tax basis of accrued revenue and progress billings and their carrying amount.

Long-term future income tax liabilities result primarily from taxable temporary differences between the tax basis of the Company's rental equipment and its carrying amount.

Note 14. FINANCIAL INSTRUMENTS

Foreign Exchange – In the normal course of operations, the Company is exposed to movements in the U.S. dollar, Australian dollar, the Pound Sterling and EURO exchange rates relative to the Canadian dollar. In order to mitigate these exposures, the Company matches future foreign currency cash inflows with foreign currency denominated liabilities, primarily through the currency mix in short and long-term borrowings.

From time to time, the Company also utilizes hedging instruments to create offsetting positions to specific exposures. These instruments are employed in connection with an underlying asset, liability or anticipated transaction, and are not used for speculative purposes.

At December 31, 2003, the Company had no currency contracts in place. At December 31, 2002 the Company had contracts to sell $3,500,000 (Australian) at an average rate of CDN/AUD $0.8603 in March and April 2003. The fair value of these contracts at December 31, 2002 was a liability of approximately CDN$100,000.

Credit Risk – A substantial portion of the Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks. The carrying amount of accounts receivable reflects management's assessment of the credit risk associated with these customers.

Interest Rate Risk – The Company's liabilities include certain long-term debt and bank indebtedness that are subject to fluctuations in interest rates. For each 1.0% change in the rate of interest on these loans, the change in interest expense would be approximately $960,000 based upon the loan balances at December 31, 2003.

Fair Values of Financial Assets and Liabilities – The fair values of financial instruments that are included in the consolidated balance sheets, other than long-term debt, approximate their carrying amounts due to the short-term maturity of those instruments. The fair value of long-term debt does not differ significantly from its carrying amount.

Note 15. SEGMENTED INFORMATION

The Company has three reportable segments: Service, Fabrication and Leasing. The Service reportable segment is the aggregation of the Mechanical Service and Syntech operating segments. The Fabrication reportable segment is the aggregation of the Production and Processing, Compression and Power operating segments. The 2002 comparative numbers include the final allocation of goodwill as at December 31, 2002. The 2002 comparative figures have been reallocated for the transfer of the Compression Services operating unit from the Service to the Fabrication reportable segment.

	Service		Fabrication		Leasing		Consolidated	
Year ended December 31	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
Segment revenue	**$ 269,036**	$ 193,578	**$ 259,715**	$ 136,901	**$ 22,281**	$ 15,943	**$ 551,032**	$ 346,422
Intersegment revenue	**(12,618)**	(2,570)	**(22,801)**	(17,140)	**(85)**	(6)	**(35,504)**	(19,716)
External revenue	**256,418**	191,008	**236,914**	119,761	**22,196**	15,937	**515,528**	326,706
Depreciation and amortization	**3,284**	2,495	**5,442**	5,291	**5,954**	4,268	**14,680**	12,054
Income (loss) before interest and taxes	**15,882**	14,527	**7,758**	(4,325)	**12,864**	7,717	**36,504**	17,919
Segment assets	**111,779**	121,830	**150,163**	150,966	**74,536**	63,981	**336,478**	336,777
Corporate							**8,743**	1,907
Goodwill	**52,972**	52,926	**52,125**	52,245	**7,356**	7,356	**112,453**	112,527
Total segment assets	**164,751**	174,756	**202,288**	203,211	**81,892**	71,337	**457,674**	451,211
Capital expenditures	**$ 3,559**	$ 2,123	**$ 2,063**	$ 2,338	**$ 23,644**	$ 16,516	**29,266**	20,977
Corporate							**726**	59
							$ 29,992	$ 21,036

The 2002 comparative figures have been reallocated for the transfer of the Compression Services operating unit from the Service to the Fabrication reportable segment as follows:

Segment revenue	$ 18,691
Intersegment revenue	(3,695)
External revenue	14,996
Depreciation and amortization	394
Income before interest and taxes	1,058
Segment assets	10,660
Capital expenditures	$ 1,379

Revenue from foreign countries was:

Year ended December 31	2003	2002
Australia	**$ 33,832**	$ 17,581
Germany	**16,896**	4,985
Indonesia	**8,821**	3,481
Netherlands	**17,496**	15,983
Pakistan	**2,617**	14,574
United States	**14,503**	18,962
Other	**34,441**	16,376
	$ 128,606	$ 91,942
Included in these amounts are gross exports from domestic operations of:	**$ 70,154**	$ 37,383

Revenue is attributed to countries by the destination of the sale. Among the countries in Other are Egypt, Gabon, Mexico and Malaysia.

Revenues from one customer represent approximately $68,021,000 of the Company's total revenues, across all segments.

Total assets in foreign countries were as follows:

December 31	2003	2002
Netherlands	**$ 14,491**	$ 15,791
United States	**6,729**	9,079
Other	**5,941**	5,198
Total assets	**$ 27,161**	$ 30,068

Total assets are attributed to countries by the location of the business.

TEN-YEAR HISTORICAL REVIEW

($ millions, except per share data and ratios) (unaudited)	**2003**	2002	2001	2000	1999	1998	1997	1996	1995	1994
Results										
Revenue	**515.5**	326.7	375.0	286.3	256.7	314.5	336.2	245.9	222.7	217.3
EBITDA(1)	**51.2**	30.0	47.8	28.9	29.1	42.4	46.7	32.4	32.2	33.8
Income before income taxes	**31.2**	14.3	36.5	17.7	20.4	38.1	42.7	27.8	26.9	30.2
Net income	**20.4**	9.2	22.5	11.3	12.1	22.6	25.2	16.5	16.1	17.8
Per common share – basic *($)*	**0.92**	0.51	1.51	0.76	0.81	1.50	1.67	1.10	1.07	1.17
Interest expense (income)	**5.3**	3.6	2.7	3.6	1.9	(0.3)	(0.1)	0.7	1.3	1.3
Depreciation and amortization	**14.7**	12.1	8.6	7.6	6.8	4.6	4.1	3.9	4.0	2.3
Cash from operations before changes in non-cash working capital	**34.9**	22.7	30.0	18.5	18.7	26.0	28.8	19.7	21.9	18.9
Capital expenditures, net										
Rental equipment	**3.7**	8.5	10.0	7.9	5.6	10.2	0.6	(2.2)	0.2	8.6
Property, plant and equipment	**2.8**	2.2	2.5	4.3	14.8	23.5	3.3	2.7	3.7	7.2
Dividends on common shares	**8.9**	7.4	6.0	6.0	6.0	6.0	4.5	3.8	3.8	2.6
Financial Position										
Working capital	**82.8**	68.7	62.1	57.9	60.0	56.0	58.0	37.7	26.9	13.0
Rental equipment	**71.8**	68.1	39.0	31.7	26.0	22.2	13.4	13.8	16.9	18.1
Property, plant and equipment	**65.0**	70.3	45.1	47.3	47.7	36.7	16.2	15.5	15.2	13.8
Total assets	**457.7**	451.2	222.1	192.7	186.1	159.5	142.7	106.4	91.8	102.5
Long-term debt	**68.4**	69.0	30.0	30.0	30.0	15.2	–	–	4.6	4.7
Shareholders' equity	**274.5**	260.9	118.5	104.1	103.0	100.1	87.0	66.4	53.6	41.6
Key Ratios										
Gross margin as a percentage of revenue	**20.2**	21.4	19.5	18.8	19.8	22.4	21.7	21.4	22.3	23.6
Pre-tax income as a percentage of revenue	**6.1**	4.4	9.7	6.2	8.0	12.1	12.7	11.3	12.1	13.9
Return on average equity(2) *(%)*	**7.6**	4.9	20.2	10.9	11.9	24.1	32.9	27.6	33.9	52.3
Return on capital employed(3) *(%)*	**10.0**	6.9	24.0	13.9	15.7	36.7	54.6	41.1	43.2	65.0

(1) Earnings before interest, taxes, depreciation and amortization (EBITDA) is a non-GAAP (Generally Accepted Accounting Principles) earnings measure that does not have a standardized meaning prescribed by GAAP and therefore is unlikely to be comparable to similar measures presented by other issuers.

Enerflex calculates EBITDA as follows ($ thousands):	**2003**
Income before interest and income taxes	**36,504**
Depreciation and amortization	**14,680**
EBITDA	**51,184**

(2) Return on average equity is calculated as net income divided by the simple average of shareholders' equity at the beginning and end of the year.

(3) Return on capital employed is calculated as pre-tax income plus interest expense divided by the simple average of capital employed at the beginning of the year and at the end of each quarter. Capital employed is the sum of shareholders' equity plus current and long-term bank indebtedness.

QUARTERLY DATA

($ millions, except per share data and ratios) (unaudited)	2003 Q4	2003 Q3	2003 Q2	2003 Q1	2002 Q4	2002 Q3	2002 Q2	2002 Q1
Revenue	**144.2**	**124.1**	**115.3**	**131.9**	110.7	112.0	54.3	49.7
EBITDA(1)	**15.4**	**13.3**	**10.5**	**12.0**	9.7	9.6	7.9	2.8
Income before income taxes	**10.6**	**8.4**	**5.3**	**6.9**	4.0	4.8	5.3	0.2
Net income	**7.2**	**5.5**	**3.3**	**4.4**	3.1	2.9	3.2	0.0
Per common share – basic *($)*	**0.33**	**0.24**	**0.15**	**0.20**	0.14	0.14	0.22	0.00
Depreciation and amortization	**3.6**	**3.7**	**3.7**	**3.7**	4.3	3.6	2.1	2.1
Cash from operations before changes in non-cash working capital	**9.1**	**10.4**	**6.6**	**8.8**	7.9	7.2	5.4	2.2
Capital expenditures, net								
Rental equipment	**5.8**	**3.5**	**0.0**	**(5.6)**	0.7	4.6	1.2	2.0
Property, plant and equipment	**2.3**	**1.0**	**(0.7)**	**0.2**	1.6	0.1	0.3	0.2
Dividends on common shares	**2.2**	**2.2**	**2.2**	**2.2**	2.2	2.2	1.5	1.5
Dividends per common share *(¢)*	**10.0**	**10.0**	**10.0**	**10.0**	10.0	10.0	10.0	10.0
Pre-tax income as a percentage of revenue	**7.4**	**6.8**	**4.6**	**5.2**	3.6	4.3	9.7	0.4

COMMON SHARE DATA

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Trading price range of										
common stock: – high	**20.20**	26.50	32.40	42.00	40.00	45.60	44.00	18.25	9.00	9.75
– low	**12.05**	13.20	18.60	25.00	29.50	23.85	16.75	8.19	6.12	7.00
– close	**20.20**	15.00	19.75	31.00	37.50	29.50	32.50	16.50	8.38	8.69
Trading volume *(millions)*	**8.9**	7.0	5.2	6.8	5.0	7.5	7.7	3.0	4.5	5.5
Common shares *(millions)*										
Outstanding at end of year	**22.2**	22.2	14.9	15.0	15.0	15.0	15.1	15.1	15.1	15.1
Weighted average – basic	**22.2**	18.2	14.9	15.0	15.0	15.1	15.1	15.1	15.1	15.1

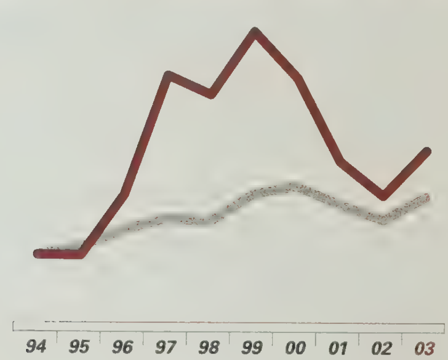
(1) Earnings before interest, income taxes, depreciation and amortization (EBITDA) is a non-GAAP (Generally Accepted Accounting Principles) earnings measure that does not have a standardized meaning prescribed by GAAP and therefore is unlikely to be comparable to similar measures presented by other issuers.

Enerflex calculates EBITDA as follows ($ thousands):	**2003**
Income before interest and income taxes	**36,504**
Depreciation and amortization	**14,680**
EBITDA	**51,184**

common share performance

index (per $ invested, 1994 = 100)

ENERFLEX	*100*	*99*	*199*	*395*	*363*	*466*	*391*	*254*	*198*	*272*
TSE	*100*	*112*	*141*	*159*	*154*	*200*	*212*	*183*	*157*	*195*



corporate directory

Directors and Officers

P. John Aldred
Director
Officer of the Corporation
Chairman, President and
Chief Executive Officer
Enerflex Systems Ltd.
Calgary, Alberta

Patrick D. Daniel(1)
Director
President and
Chief Executive Officer
Enbridge, Inc.
Calgary, Alberta

Michael A. Grandin(1)
Director
Chairman and
Chief Executive Officer
Fording Canadian Coal Trust
Calgary, Alberta

Douglas J. Haughey
Director
President
Gas Transmission West
Duke Energy Corporation
Calgary, Alberta

Geoffrey F. Hyland(2)
Director
President and
Chief Executive Officer
Shawcor Ltd.
Rexdale, Ontario

John R. King
Director
Senior Vice-President
Technology Services Group
Precision Drilling Corporation
Calgary, Alberta

J. Nicholas Ross(1)(2)
Director
Chairman and Chief Executive
Officer
Rover Capital Corporation
Toronto, Ontario

Hon. Barbara J. Sparrow(1)
Director
President
Sparrow Holdings Ltd.
Calgary, Alberta

Robert C. Williams(2)
Director
Managing Director
Equity Capital
Markets/Syndication
Scotia Capital Inc.
Toronto, Ontario

J. Blair Goertzen
Officer of the Corporation
Executive Vice-President and
Chief Operating Officer
Red Deer, Alberta

Dale J. Hohm
Officer of the Corporation
Vice-President and
Chief Financial Officer
Calgary, Alberta

Kelly R. Smith
Officer of the Corporation
Vice-President,
Production and Processing
Edmonton, Alberta

Yves J. Tremblay
Officer of the Corporation
Vice-President, Syntech
Airdrie, Alberta

Sean R. Ulmer
Officer of the Corporation
Vice-President, Leasing
Calgary, Alberta

Note:
(1) Member of Audit Committee
(2) Member of Corporate Governance and Compensation Committee

Corporate Office

4700 47 Street SE
Calgary, Alberta
Canada T2B 3R1

Tel: 1.403.236.6800
Fax: 1.403.236.6816

Email: ir@enerflex.com
Website: www.enerflex.com

shareholder information

Shares
The common shares of the Company are listed and traded on the Toronto Stock Exchange under the share symbol "EFX." The Company is a constituent of the S&P/TSX Composite Index.

Registrar and Transfer Agent
Computershare Trust Company of Canada
600, 530 8 Avenue SW
Calgary Alberta T2P 3S8
Tel: 1.800.564.6253
Dir: 1.403.267.6555
Fax: 1.403.267.6592
Internet: www.computershare.com
Email: caregistryinfo@computershare.com

All questions about accounts, stock certificates or dividend cheques should be directed to the Registrar and Transfer Agent.

Auditors
Deloitte & Touche LLP
Calgary, Alberta

Bankers
Canadian Imperial Bank of Commerce
HSBC Bank Canada
Calgary, Alberta

Solicitors
Bennett Jones LLP
Calgary, Alberta

Investor Information
Requests for the Company's Annual Report, Quarterly Reports and other corporate communications should be directed to:

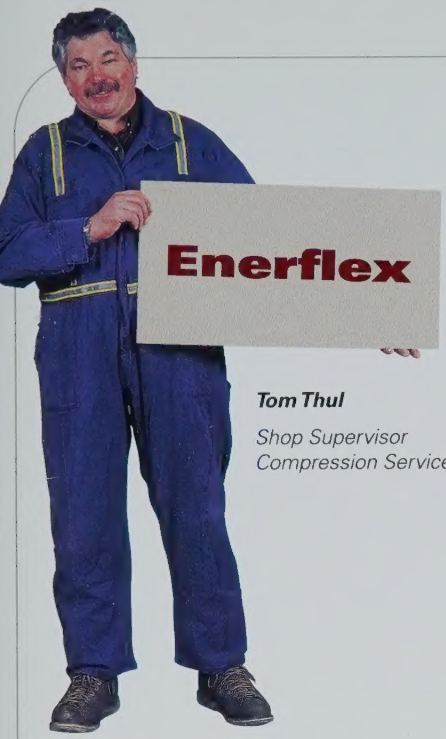
Investor Relations
Enerflex Systems Ltd.
4700 47 Street SE
Calgary Alberta T2B 3R1
Tel: 1.403.236.6800
Email: ir@enerflex.com

Shares Held in Nominee Name
To ensure that shareholders whose shares are not held in their name receive all Company reports and releases on a timely basis, a direct mailing list is maintained by the Company. If you would like your name added to this list, please forward your request to Investor Relations at Enerflex.

Annual General Meeting
The Annual Meeting of Shareholders of Enerflex Systems Ltd. will be held on April 15, 2004, at the Sheraton Suites Eau Claire, 255 Barclay Parade SW, Calgary, Alberta, at 11:00 a.m. Calgary time.

on the cover

Legend:
1. Marty Carriere, Senior Electrical Foreman
2. Vera Stephenson, Credit & Collection Manager
3. Clint Marshall, Proposal Technician
4. Steven Graham, General Manager
5. Gerald Allard, Production Manager
6. Chuck Kitts, Warehouse Group Leader
7. Kevin Zeiler, Lead Hand, Structural
8. Trent Knight, Manager, Turbine Sales
9. Lin Kingdon, Administrative Supervisor
10. Melanie Wilson, Apprentice Instrument Technician
11. Daryl Light, Lead Project Designer
12. Mike Admussen, Service Manager
13. David Krobutschek, Senior Project Manager
14. Raymond Guinsatao, Journeyman Welder



Bios

Tom Thul

Shop Supervisor
Compression Services

Clint Marshall (IFC)
Proposal Technician
Jiro

Clint has been a valued and versatile member of the Jiro team for six years. He started out as an apprentice welder in the fabrication shop and over the years has acquired his B-pressure ticket. He has been involved in all phases of compressor assembly, from skid assembly to test runs. Proving his versatility, Clint joined Jiro's Proposal group at the end of 2003, where his production experience will be a big asset.

Jim Degenhardt (p. 4)
Resident Partsman, Slave Lake
Pamco

With the division since 1995, the names "Jim Degenhardt" and "Pamco" are synonymous in the town of Slave Lake and with customers in the surrounding area. Jim is responsible for everything from customer parts requirements through to keeping the coffee fresh and the grass cut. A volunteer fireman, Jim's devotion to his community and to his family help define what Pamco is about.

Charlie Burgeson (p. 5)
Vessel Pipe Supervisor
EFX Compression

With 23 years of service at Enerflex, Charlie is among the leading experts in vessel and process piping fabrication in the industry. He is highly respected in his field and as a result, benefits our Company by attracting many of the best tradesmen in the industry. Charlie's expertise and leadership will play a key role in our ability to maintain our world class status and high level of customer satisfaction.

Jacqui Blunsum (p. 8)
Receptionist, Perth
Gas Drive Systems

When Jacqui joined Gas Drive Systems Perth office in 2000, no one – not even Jacqui herself – realized what an integral part of the operation she would become. Jacqui keeps the operation humming handling key administration functions. Her achievements include organizing the WADA (Waukesha Asia Distributors Association) conference in Perth in April 2002 and being instrumental in the set-up of invoicing of goods to Indonesia.

Michiel Sap (p. 9)
Service Engineer
Landré Ruhaak

In just five years with the division, Michiel has expanded his maintenance and engineering expertise beyond co-generation, to include the compression side of the business. Trained at Ariel, Waukesha and Pamco, he has worked on projects in the North Sea, Poland, Ukraine and the Netherlands. In the near future, he will be taking on a project in Turkmenistan.

Feroze Ansari (p.11)
Proposal Technician
Power

Fondly nicknamed "fount of all knowledge", Feroze joined the division three years ago when he came to Canada from Pakistan. With 13 years of experience in management, customer service and hardware engineering, Feroze has already made his mark, having assisted the Standards group in defining all Power standards and as the author of all ISO procedures for the division.

Cecil Wood (p.17)
QA/QC, HSE Supervisor
EFX Compression USA

In his eight years with the company, Cecil has held various management positions including Shop Superintendent. Cecil's leadership is respected among production and engineering staff. He is recognized as a team player and a valued employee of Enerflex.

Rennyarto Chandra (p. 27)
Sales Director
PT Gas Drive Systems Indonesia

In just over one year with the division, Renny has been instrumental in building the business from a start-up operation to a company that has capabilities in compression, processing and production facilities and service. Renny has over 13 years of experience in the sales, marketing, project engineering, project control, project planning, fabrication, testing and commissioning of equipment for the oil and gas industry.

Dean Jones (p. 35)
Leasing Coordinator - Process Equipment Leasing

An Enerflex team member for seven years, Dean has taken on the management and marketing of rental process equipment almost single-handedly and is directly responsible for increasing utilization of the fleet to unprecedented levels. It is not unusual for Dean to take customers' calls at night and on weekends, ensuring their needs are being met.

Mike McKinty (p. 41)
Operations Manager
Mactronic

Mike has represented Mactronic for over twenty years with knowledge and dedication. Customers repeatedly ask for Mike by name. The experience and first-hand knowledge he has acquired over the last two decades has been instrumental in the development and the quality of many of the Mactronic products in use today.

Boh McLean (p. 49)
Branch Manager, Lloydminster
Syntech

Boh has been with Syntech for 17 years, having started as an electrical apprentice in a predecessor's shop in Kindersley, Saskatchewan. As Manager of Syntech's Lloydminster branch, Boh is responsible for the over 40 people in the branch and looks after Syntech's customers within a radius that extends west to Viking, south to Cactus Lake, north to Frog Lake and east to North Battleford.

Tom Thul (IBC)
Shop Supervisor
Compression Services

Tom's vast field revamp experience is a perfect example of how Compression Services' status as the only stand-alone revamp specialist is made possible by the experience and dedication of our people.

Eric Allison (OBC)
Senior Project Manager,
International Projects
Presson

Almost by himself, Eric represents what the total Enerflex solution – teamwork from wellhead to pipeline – can mean. Eric joined Presson over 10 years ago as a Junior Process Engineer. As Senior Project Manager, International Projects, he has played a key role in Presson's success on the international stage, having managed several of Presson's major projects in areas around the world.

Eric Allison

Senior Project Manager, International Projects
Presson

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